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United Nations Office on Drugs and Crime

Financial report and audited financial statements

for the year ended 31 December 2016

and

Report of the Board of Auditors

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Note

Symbols of United Nations documents are composed of letters combined with figures. Mention of such a symbol indicates a reference to a United Nations document.

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Letters of transmittal

Letter dated 31 March 2017 from the Executive Director of the United Nations Office on Drugs and Crime addressed to the Chair of the Board of Auditors

In accordance with United Nations Office on Drugs and Crime financial rule 406.3, I have the honour to transmit the financial statements of the United Nations Office on Drugs and Crime for the year ended 31 December 2016, which I hereby approve.

Copies of these financial statements are also being transmitted to the General Assembly through the Advisory Committee on Administrative and Budgetary Questions.

(*Signed*) Yury **Fedotov**
Executive Director
United Nations Office on Drugs and Crime

Letter dated 30 June 2017 from the Chair of the Board of Auditors addressed to the President of the General Assembly

I have the honour to transmit to you the report of the Board of Auditors on the United Nations Office on Drugs and Crime for the year ended 31 December 2016.

(*Signed*) Shashi Kant **Sharma**
Comptroller and Auditor General of India
Chair of the Board of Auditors

Chapter I

Report of the Board of Auditors on the financial statements: audit opinion

Opinion

We have audited the financial statements of the United Nations Office on Drugs and Crime (UNODC), which comprise the statement of financial position (statement I) as at 31 December 2016 and the statement of financial performance (statement II), the statement of changes in net assets (statement III), the statement of cash flows (statement IV) and the statement of comparison of budget and actual amounts (statement V) for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of UNODC as at 31 December 2016 and its financial performance and cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (IPSAS).

Basis for opinion

We conducted our audit in accordance with the International Standards on Auditing. Our responsibilities under those standards are described in the section below entitled "Auditor's responsibilities for the audit of the financial statements". We are independent of UNODC, in accordance with the ethical requirements relevant to our audit of the financial statements, and we have fulfilled our other ethical responsibilities in accordance with those requirements. We believe that the audit evidence that we have obtained is sufficient and appropriate to provide a basis for our opinion.

Information other than the financial statements and auditor's report thereon

Management is responsible for the other information, which comprises the financial report for the year ended 31 December 2016, contained in chapter III below, but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, on the basis of the work that we have performed, we conclude that there is a material misstatement in the other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of management and those charged with governance for the financial statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IPSAS and for such internal control as management determines to be necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the ability of UNODC to continue as a going concern, disclosing, as applicable, matters related to the going concern and using the going-concern basis of accounting unless management intends either to liquidate UNODC or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the financial reporting process of UNODC.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance as to whether the financial statements as a whole are free from material misstatements, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the International Standards on Auditing will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with the International Standards on Auditing, we exercise professional judgment and maintain professional scepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement in the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than the risk of not detecting one resulting from error, as fraud may involve collusion, forgery, intentional omission, misrepresentation or the overriding of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the internal control of UNODC.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Draw conclusions as to the appropriateness of management's use of the going-concern basis of accounting and, on the basis of the audit evidence obtained, whether a material uncertainty exists in relation to events or conditions that may cast significant doubt on the ability of UNODC to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause UNODC to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance with regard to, among other matters, the planned scope and timing of the audit and significant audit

findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other legal and regulatory requirements

Furthermore, in our opinion, the transactions of UNODC that have come to our notice or that we have tested as part of our audit have, in all significant respects, been in accordance with the Financial Regulations and Rules of UNODC and legislative authority.

In accordance with article VII of the Financial Regulations and Rules of the United Nations, we have also issued a long-form report on our audit of UNODC.

(*Signed*) Shashi Kant **Sharma**
Comptroller and Auditor General of India
Chair of the Board of Auditors

(*Signed*) Kay **Scheller**
President of the German Federal Court of Auditors
(Lead Auditor)

(*Signed*) Mussa Juma **Assad**
Controller and Auditor General of the
United Republic of Tanzania

30 June 2017

Chapter II
Long-form report of the Board of Auditors

Summary

The Board of Auditors has audited the financial statements and reviewed the operations of the United Nations Office on Drugs and Crime (UNODC) for the year ended 31 December 2016. The Board examined financial transactions and operations at UNODC headquarters in Vienna and in the field operations in Turin, Italy, at the United Nations Interregional Crime and Justice Research Institute, and in Kazakhstan and Uzbekistan.

Opinion

In the Board's opinion, the financial statements present fairly, in all material respects, the financial position of the United Nations Office on Drugs and Crime as at 31 December 2016 and its financial performance and cash flows for the year then ended in accordance with the International Public Sector Accounting Standards.

Overall conclusion

The Board did not identify significant errors, omissions or misstatements from the review of financial records of UNODC for the year ended 31 December 2016. However, the Board identified some deficiencies in the financial statements which were corrected by management in the course of the audit. The Board found areas for improvement in information and communications technology infrastructure, the inclusion of persons with disabilities and UNODC contributions to the Sustainable Development Goals.

Key findings

Financial management

The Board noted that UNODC made manual journal entries directly in the reporting tool for financial statements, in addition to the data imported from Umoja. These manual entries comprised intra-fund eliminations, corrections between segments, movements between line items and other adjustments. The Board is of the opinion that UNODC should make no manual adjustments in its business planning and consolidation reporting tool if possible, but instead ensure that the data from Umoja are accurate and complete.

During 2016, UNODC recorded 169,956 manual journal lines in Umoja. One third of the manually entered journals were posted during year-end closure. Owing to this time lag in postings in its enterprise resource planning system, UNODC was not able to adequately monitor its financial performance and position during the year. Furthermore, delayed postings can give the false impression to project leaders that more funds are available than is actually the case, which can lead to projects and funds overspending their available budget.

According to its general ledger accounts list, UNODC managed 63 petty cash accounts at its headquarters and field offices. With regard to 10 accounts, UNODC could not provide cash count statements as at 31 December 2016. With regard to 14 accounts, the amounts recorded in the general ledger did not tally with those reported in the respective cash count statements. The Board noted that petty cash accounts needed to be kept in an accurate and timely manner to ensure compliant spending of project funds and a true representation of the expenses incurred.

Approximately half of the accruals for goods and services were determined on the basis of a manual list. The Board found that the process of identification of these accruals required a high level of manual intervention and was therefore time-consuming. The Board found two accruals that were too high and two that had no supporting documentation. This resulted in an excess accrual.

Physical security of information and communications technology infrastructure

The Board noted that the doorways and corridors outside data centres were filled with large amounts of combustible materials and other inflammable objects. The fire load of these objects seemed to be enormous and might destroy the cables and the important connectivity and power supply.

In addition, the Board inspected the information and communications technology (ICT) infrastructure within the Vienna International Centre, which is important to the network connectivity of UNODC. One of two central hub racks of the building's shared fibre-optic infrastructure was located in the basement of the C-Building in a "Technical Installation and Service Room (C-1T26)". This large room is used by several organizations in the Centre, including UNODC, the United Nations Office at Vienna, the Comprehensive Nuclear-Test-Ban Treaty Organization and the United Nations Industrial Development Organization, all of which had access to this main ICT infrastructure. The access to the room by staff or other persons not in charge of network administration or other activities related to the ICT infrastructure may increase the risk of damage from sabotage or unauthorized handling of these important hub racks. Moreover, the uncontrolled and disordered storage of inflammable goods and material might pose a higher risk of damage in the case of fire. These ICT components are highly important to the communication of all participating organizations. In case of damage, a major part of the redundancy of the network-based communication in Centre would be impaired.

Information and communications technology in the field

The Board audited the main ICT environment in one regional field office. The Board noted that no specialized ICT guidelines and standard operating procedures for the fields were in place. UNODC field offices are small and either do not have ICT specialists or have only one specialist. To meet the special needs of field offices, guidelines such as Secretary-General's bulletins and Office of Information and Communications Technology technical procedures have to be reformulated into specialized guidelines. In doing so, industry standards should be taken into account.

Inclusiveness and accessibility for persons with disabilities

The United Nations has committed itself to improving accessibility and full inclusion of staff members with disabilities. To that purpose, the Secretary-General's bulletin entitled "Employment and accessibility for staff members with disabilities in the United Nations Secretariat" requires the establishment of focal points on disability and accessibility in the workplace. UNODC has established two focal points in Vienna, but special focal points for personnel in the field offices do not exist. Furthermore, UNODC has set no standards for the accessibility of its field offices, whether they are administered by UNODC or are shared offices in United Nations common premises.

Procurement

Since the introduction of Umoja at UNODC in November 2015, the Procurement Unit has become aware of cases of goods delivered without purchase orders (ex post facto). As of November 2016, the Procurement Unit began recording the reported ex post facto cases. During the period from 1 November 2016 to 31 March 2017, the number of recorded cases amounted to 121 ($1.1 million). Most of the reported cases came from field offices. The Board held that there was no adequate technical oversight over the field offices to ensure that procurement activities were in line with the financial and procurement rules and regulations.

Sustainable Development Goals

The Board noted that UNODC did not officially introduce focal points for those Sustainable Development Goals that were of importance to the field offices. The Board holds that a clear structure would accelerate the exchange of information between UNODC headquarters and field offices. In addition, there was no comprehensive and integrated approach on the implementation support of the Goals. The Board considers it necessary to develop a complete draft and long-term strategy for implementing the 2030 Agenda for Sustainable Development.

Main recommendations

The main recommendations are that UNODC:

Financial management

- **Include a system-integrated approach to incorporate inter-organizational eliminations within business planning and consolidation, including any additional action necessary to reach this goal, for instance, an alignment of the funds structure.**
- **Adequately monitor financial performance and position during the year, including regular review of its cash flows.**
- **Improve its control over petty cash balances, collect cash count statements for each petty cash account and ensure that statements and general ledger accounts match.**
- **Record the receipt of goods and services in a timely manner.**
- **Improve recognition of accruals stemming from open purchase orders and implement effective controls to detect and prevent excess accruals by field offices.**

Physical security of information and communications technology infrastructure

- **Remove all combustible and unnecessary materials from such sensitive areas with special need of protection, such as server and data centres and (rescue) access ways to such areas, to reduce the fire load to a minimum. The storing of inflammable material in these areas must be strictly forbidden and regularly controlled.**

Information and communications technology in the field

- **Develop pragmatic ICT standard operating procedures and templates which field offices may use for the main ICT areas to ensure that compliance can be monitored.**

Inclusiveness and accessibility for persons with disabilities

- **Consider appointing focal points on disability and accessibility issues in field offices and set standards for the accessibility of field office premises, and consider cooperating with the United Nations Development Programme (UNDP) to implement standards for accessibility in UNDP-administered premises.**

Procurement

- **Establish regular monitoring of procurement activities at UNODC headquarters and field offices and assign clear responsibilities for the monitoring process.**

Sustainable Development Goals

- **Consider the document "UNODC and the Sustainable Development Goals" to be a "living" document and update it as necessary.**

Key facts

Core staff of 644 from 68 locations

$341.2 million: original budget for 2016 in the biennium 2016-2017

$342.2 million: revenue for 2016

$241.9 million: expenses for 2016

$264.5 million: net contributions receivable, from donors, under current agreements

$509.9 million: cash and investments in the United Nations Treasury cash pool

A. Mandate, scope and methodology

1. The United Nations Office on Drugs and Crime (UNODC) is mandated to assist Member States in tackling illicit drugs, crime and terrorism. Headquartered in Vienna, UNODC operates globally with a core staff of 644 in 68 locations. Almost all of the activities of UNODC are undertaken through individual projects at global, regional and country levels (216 projects).

2. The Board of Auditors audited the financial statements of UNODC and reviewed its activities for the year ended 31 December 2016, in accordance with General Assembly resolution 74 (I) of 1946. The audit was conducted in conformity with the Financial Regulations and Rules of the United Nations and the Financial Rules of UNODC, as well as the International Standards on Auditing.

3. The audit was conducted to enable the Board to form an opinion as to whether the financial statements presented fairly the financial position of UNODC as at 31 December 2016 and its financial performance and cash flows for the year then ended, in accordance with the International Public Sector Accounting Standards (IPSAS). The audit included a general review of financial systems and internal controls and a test examination of the accounting records and other supporting evidence of transactions to the extent that the Board considered necessary to form an opinion on the financial statements. The audit was carried out at UNODC headquarters in Vienna and in Turin, Italy, at the United Nations Interregional Crime and Justice Research Institute, and in Kazakhstan and Uzbekistan.

4. The Board reviewed the activities of UNODC and made, as provided in section 7.5 of the Financial Regulations and Rules of the United Nations, observations on the efficiency of the financial procedures, the accounting system, the internal financial controls and, in general, the administration and management of operations. The Board has commented on the Office's financial position and reviewed elements of its information and communications technology (ICT) infrastructure and ICT governance. In its audit, the Board has included the cross-cutting issues of inclusion of persons with disabilities and UNODC contribution to the Sustainable Development Goals.

5. The present report covers matters that, in the opinion of the Board, should be brought to the attention of the General Assembly. The Board's observations and conclusions were communicated to UNODC management, whose views have been appropriately reflected in the report.

B. Follow-up of previous recommendations of the Board

6. Of the 38 outstanding recommendations made for 2015 and previous bienniums, 11 (29 per cent) were fully implemented, 18 (47 per cent) remained under implementation and 9 (24 per cent) were overtaken by events (see table II.1). Details of the implementation of the previous years' recommendations are provided in the annex to chapter II.

Table II.1
Status of implementation of recommendations

	Fully implemented	*Under implementation*	*Not implemented*	*Overtaken by events*
Total	11	18	0	9
Percentage	29	47	–	24

Source: Board of Auditors.

7. There has been positive progress overall across many of the recommendations still marked as under implementation, including in the areas of financial management and reporting; gaining an accurate picture of progress information on projects and programmes against milestones; and collecting better data on the volumes and value of field office procurement. Actions must be taken by management to address the 47 per cent of recommendations which have yet to be implemented.

C. Financial overview

8. UNODC is mainly funded through voluntary contributions. In 2016, net voluntary contributions amounted to $289.3 million (2015: $230.0 million) of total revenue of $342.2 million (2015: $275.0 million). Revenue also included $30.1 million from the United Nations regular budget (2015: $29.0 million). Expenses for the year were $241.9 million (2015: $278.7 million), resulting in a surplus of $100.3 million (2015: deficit of $3.8 million). This was largely due to the fact that contributions were received late in the year and projects were not implemented until 2017. The Board further noted the continued trend towards earmarked resources, and that only $3.7 million of $289.3 million of voluntary contributions were not earmarked. The Board noted that efficient project control was necessary in order to quickly implement projects when funding was received, particularly when the inflow of funding was uneven throughout the year.

9. The Board's analysis of capital structure ratios demonstrates that, despite the competitive environment for donor funds, the current financial position of UNODC remains sound and has improved compared with 2015, with an assets to liabilities ratio of 3.06. The current ratio is even better, with a value of 5.24. The analysis of ratios shows relative consistency over the past three financial years (see table II.2).

Table II.2
Capital structure ratios

Description of ratio	*31 December 2016*	*31 December 2015*	*31 December 2014*
Total assets: total liabilities[a]	3.06	2.46	2.30
Assets: liabilities			
Current ratio[b]	5.24	3.04	3.10
Current assets: current liabilities			
Quick ratio[c]	4.99	2.95	1.96
Cash + short term investments + accounts receivable: current liabilities			
Cash ratio[d]	3.41	1.72	1.62
Cash + short-term investments: current liabilities			

Source: Board analysis of UNODC financial data.

[a] A high ratio indicates an entity's ability to meet its overall obligations.

[b] A high ratio indicates an entity's ability to pay off its current liabilities.

[c] The quick ratio is more conservative than the current ratio, because it excludes inventory and other current assets, which are more difficult to turn into cash. A higher ratio means a more liquid current position.

[d] The cash ratio is an indicator of an entity's liquidity; it measures the amount of cash, cash equivalents or invested funds that are in current assets to cover current liabilities.

10. The two major components of the UNODC asset base are cash and investment balances, which totalled $508.9 million (2015: $460.8 million), and voluntary contributions receivable from donors of $264.5 million (2015: $272.7 million). Cash

and investment balances are managed under a cash pool arrangement operated by the United Nations Secretariat in New York. The returns on the UNODC cash balances totalled $3.5 million (2015: $2.2 million). Voluntary contributions receivable represent the remaining sums due over the lifetime of the current agreements with donors, of which an amount of $86.4 million (2015: $52.7 million) is due in more than one year's time. The level of voluntary contributions receivable fell by 3 per cent during 2016 (2015: 18 per cent), slightly slowing the previous years' decline in the receipt of voluntary contributions.

11. The Office's most significant liability is for the advance receipt of voluntary contributions of $125.9 million (2015: $170.0 million). Of this amount, $120.0 million (2015: $164.1 million) is from current European Union agreements where the revenue will be recognized as the conditions set down in the agreements are met in future financial periods. These advance receipts represent, from the perspective of UNODC, commitments to donors for the provision of future services. The scale of these deferred revenues demonstrates the extent to which future revenues, and a good portion of receivables, are dependent on UNODC continuing to deliver current projects and programmes in line with expectations.

12. The second most significant element of UNODC liabilities results from employee benefits of $110.5 million (2015: $101.9 million). The employee benefits liabilities represent obligations incurred at year end, the largest element being the estimate for the cost of after-service health insurance of $82.9 million (2015: $74.8 million). The effect of an increased discount rate alongside other experience adjustments resulted in an overall net actuarial valuation loss of $3.0 million (2015: gain of $24.2 million) on the after-service health insurance liability, as disclosed in note 14 to the financial statements. It remains important to ensure that currently funded projects provide sufficient contribution to meet any associated increases in costs so that past project activities do not require substantive funding from future donors.

D. Main findings and recommendations

1. Financial management and internal control

Financial reporting

13. Financial year 2016 was the first year in which UNODC fully operated its new enterprise resource planning system, "Umoja", after the conversion from its legacy systems in November 2015. It was also the first financial year in which UNODC used the Excel-integrated Business Planning and Consolidation module reporting tool for the preparation of its financial statements. United Nations entities under the Secretariat use the module with a standardized and coherent mapping of general ledger accounts to line items for all entities. The module consolidates financial data from general ledger accounts and produces financial statements, and fulfils the sole function of a reporting tool. This standardized approach results in a more comparable presentation of financial statements. Using one single reporting system for all entities particularly ensures better comparability and overview across the United Nations in line with the One United Nations initiative.

14. The Board noted that UNODC made manual journal entries directly in the reporting tool for financial statements, in addition to the data imported from Umoja. These manual entries comprised intra-fund eliminations, corrections between segments, movements between line items and other adjustments. Overall, these manual adjustments decreased revenues by $27,991,280 and expenses by $27,966,185, which resulted in a decrease of surplus of $25,095. Assets decreased

by $4,110,108 and liabilities decreased by $4,072,154, which resulted in a decrease of current year net assets of $12,858.

15. The Board is of the opinion that UNODC should use manual entries in the Business Planning and Consolidation module in order to adjust Umoja data in exceptional cases only. This may apply to eliminations between funds; however, those should be systematically incorporated into the module rather than through manual entries where feasible. Reclassifications of postings between line items in the statement should remain the exception, as it contradicts the idea of having a common classification across the entire range of United Nations Secretariat entities. UNODC should make no other manual adjustments in the Business Planning and Consolidation module but rather use regular journals in Umoja, since Umoja is the only enterprise resource planning system to be used.

16. **The Board recommends that UNODC use a systems-integrated approach to incorporate inter-organizational eliminations within the Business Planning and Consolidation module, including any additional actions necessary to reach this goal, for example, an alignment of the funds structure.**

17. **The Board recommends that UNODC eliminate or reduce the number of manual postings in the Business Planning and Consolidation module.**

18. **The Board further recommends that UNODC review existing journal entries in the Business Planning and Consolidation module and align Umoja to ensure that its data reflect the line items in the financial statements wherever possible.**

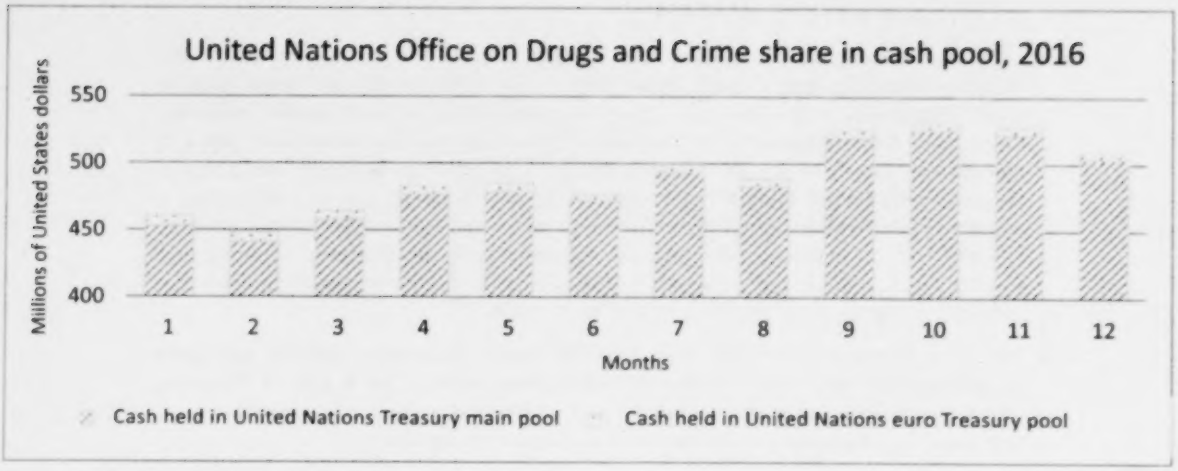
Financial accounting

19. Data supporting the financial statements are composed of system-based entries such as postings of purchases through a workflow, as well as manual journals. Workflow-based transactions use the system-built controls to ensure the correct authorization and the "four eyes" principle. Manual entries do not require a workflow and they are less strictly embedded in internal controls. As a consequence, they require thorough attention and review by management.

20. During the financial year 2016, UNODC made 3,515 manual entries in Umoja (document types SA and SZ), that represent a total of 169,956 line items. Of these manual entries, 1,147 were made in 2017 and another 1,210 were posted in December 2016. Furthermore, about half of the entries for goods and services received were posted from October to December 2016.

21. The Board noted that a large portion of manual entries for the receipt of goods and services was not posted until around the year end. As a consequence, the Office's cash flow increased steadily throughout the year. Since expenses were not posted in a timely manner, the increase of cash did not reflect the true cash situation of UNODC. As can be seen in figure II.I below, cash increased throughout the year and decreased again at year end.

Figure II.I



Source: Umoja financial data for financial year 2016.

22. Due to the time lag in postings in its enterprise resource planning system, UNODC was not able to adequately monitor its financial performance and position during the year. Furthermore, delayed postings can give the false impression to project leaders that more funds are available than is actually the case, which can lead to projects and funds overspending their available budget.

23. **The Board recommends that UNODC adequately monitor its financial performance and position during the year, including through the regular review of its cash flows.**

Representation of sources of income in Umoja

24. UNODC accounting must distinguish between various sources of income. In this context, the fund "64DCR" is supplied by exchange transactions and transactions resulting from full cost recovery. Due to this "mix" of two differing sources of income, UNODC has to manually reallocate the transactions when preparing the financial statements. More manual journal entries are necessary to correct erroneous postings which have been "generated" by Umoja. Therefore, UNODC has no accurate overview of its types of income.

25. **The Board recommends that UNODC set up a clear structure for its sources of income in order to better meet its accounting and reporting requirements.**

Cash management

26. The line item "cash and cash equivalents" in the statement of financial position comprises the UNODC share in the United Nations cash pool, petty cash and imprest accounts. UNODC reported a balance of $120,595 in petty cash and imprest cash accounts at the end of 2016. Of this amount, $78,159 originated from unallocated items in a petty cash clearing account.

27. In total, UNODC managed 63 petty cash accounts at its headquarters and field offices, according to the list of general ledger accounts. UNODC could not provide cash count statements for 10 accounts, which corresponds to a monetary value of $7,849. In addition, in 14 accounts the amounts recorded in the general ledger did not tally with those reported in the respective cash count statements, amounting to a difference of $9,780.

28. The Board further noted that the internal checklist of petty cash accounts held by UNODC suggested that, in at least one case, one general ledger account had been assigned to several petty cash accounts. The number of petty cash accounts on the internal checklist therefore diverged from the number of general ledger accounts.

29. The Board is of the opinion that petty cash accounts need to be posted in an accurate and timely manner to ensure compliant spending and accounting of project funds. Petty cash accounts need to be duly managed to ensure that their accounting and documentation truly represent the expenses incurred.

30. **The Board recommends that UNODC improve its control over petty cash balances, collect cash count statements for each petty cash account and ensure that statements and general ledger accounts match.**

Open item managed accounts

31. Accounts in the accounts payable and accounts receivable section and other general ledger accounts are open item managed. That means that matching debit and credit entries can be set off against each other and are considered cleared items that will no longer be considered for currency revaluations or account balance reports. The netting of accounts payable and accounts receivable items is integrated into the system and items are automatically cleared when they are uniquely identifiable. All other items need to be netted manually.

32. Accounts payable and accounts receivable items were not netted manually when the automatic system netting did not work, and in no instances were open item managed general ledger accounts netted.

33. The Board is of the opinion that the clearing of open items is necessary for UNODC to gain an overview of balances remaining in accounts. When items are not cleared, the accounts unit or management is not able to quickly identify relevant entries in the general ledger. Particularly in cases of foreign currency values, this leads to incorrect revaluations of balances. During the closure of financial year 2016, UNODC needed to manually adjust foreign currency balances that had been incorrectly revaluated. Closing open items in a timely manner would help reduce the number of manual journal entries.

34. **The Board recommends that UNODC continually review and clear all items in open item managed accounts throughout the year.**

Accruals for goods and services

35. At the end of 2016, UNODC accruals for goods and services totalled $17,502,906. One half of the accrual amount resulted from the receipt of goods and services for which the receipt was properly entered into the system. Invoices, however, had not yet been received. The second half of the accrual amount is based on a report of open purchase orders. Field offices were required to indicate the amounts to be accrued for each open purchase order. UNODC headquarters reviewed the list in total and recorded manual journal entries.

36. In this instance, identifying the accruals by the field offices and headquarters was a time-consuming assignment.

37. The Board found two accruals that had been overstated and two others that had no supporting documentation. This resulted in an excess accrual of $146,408.

38. **The Board recommends that UNODC record the receipt of goods and services in a timely manner.**

39. **The Board further recommends that UNODC improve recognition of accruals stemming from open purchase orders and implement effective controls to detect and prevent excess accruals by field offices.**

Voluntary contributions receivable

40. At the end of 2016, the Office's total net voluntary contributions receivable amounted to $264,458,706. Contributions receivable are recognized in the statement of financial position in the year in which the agreements are signed.

41. During the audit, the Board became aware of an additional pledge agreement of $500,000 which was not included in the financial statements for 2016, but had been concluded during the financial year 2016. This agreement was not identified by the UNODC financial control team until after the accounts were closed.

42. **The Board recommends that UNODC strengthen its controls over concluded pledge agreements to ensure that the financial statements reflect all contribution agreements.**

43. Contributions receivable are classified as short-term or long-term contributions on a case-by-case analysis. However, UNODC does not differentiate between contributions to be received within one year or two or more years, but instead uses the total of all contributions that are due in future years.

44. **The Board recommends that UNODC classify contribution pledges by long-term and short-term contributions, and include a structured differentiation of the ageing structure by future years.**

2. Physical security of information and communications technology infrastructure

Doorways and corridors in front of data centres

45. The Board audited the physical security of the UNODC ICT infrastructure and inspected different data centres and several facilities for backup power supplies.

46. The Board noted that the doorways and corridors outside both data centres were filled with large amounts of combustible materials, old furniture and other inflammable objects. Many cables were installed above the inflammable material. No protection was mounted.

47. The Board is of the view that these materials increase the risk of fire and should therefore be removed. The fire load of these objects seems to be enormous and might destroy the cables and the important connectivity and power supply.

48. **The Board recommends that UNODC remove all combustible and unnecessary materials from such sensitive areas with special need of protection, such as server and data centres and (rescue) access ways to such areas, to reduce the fire load to a minimum. The storing of inflammable material in these areas must be strictly forbidden and regularly controlled.**

Fibre-optic distribution centre in the Vienna International Centre

49. In addition, the Board inspected the ICT infrastructure within the Vienna International Centre, which is important to the network connectivity of UNODC. One of two central hub racks of the building's shared fibre-optic infrastructure was located in the basement of the C-Building in a "Technical Installation and Service Room" (C-1T26). This large room is used by several organizations in the Centre, including UNODC, the United Nations Office at Vienna, the Comprehensive Nuclear-Test-Ban Treaty Organization and the United Nations Industrial Development Organization. All of these organizations had access to this main ICT

infrastructure. The access to the room by staff or other persons not in charge of network administration or other activities related to the ICT infrastructure may increase the risk of damage from sabotage or unauthorized handling of these important hub racks. Moreover, the uncontrolled and disordered storage of inflammable goods and material might pose a higher risk of damage in the case of fire. These ICT components are highly important to the communication of all participating organizations. In case of damage, a major part of the network-based communication in the Centre would be impaired.

50. The Board is concerned that access to the room is possible for staff or other persons not in charge of network administration and, in case of damage, a major part of the redundancy of the network-based communication in the Vienna International Centre would be lost, increasing the risk of an interruption in communications.

51. **The Board recommends that UNODC initiate a process with the other organizations in the Vienna International Centre with the purpose of assessing how access to the ICT rooms can be better controlled and how unauthorized access can be prevented.**

3. Information and communications technology in the field

52. The Board audited the main ICT areas, including information system operations, backup and recovery, disaster recovery planning and information security, in one regional field office.

53. As there were no specialized ICT guidelines and standard operating procedures for the field, the Board used Secretary-General's bulletins, Office of Information and Communications Technology technical procedures and industrial standards for the audit. The Board found weaknesses in data management, ICT security and disaster recovery planning. Production data were partly managed locally instead of being managed centrally in the data centre at headquarters. Combustible material in the server room increased the fire load. The backup media for the locally managed data was kept in the server room and was therefore not safe in case of fire in that room. A disaster recovery plan to overcome ICT service disruptions had not yet been designed. There was the risk that sensitive data were not protected as required.

54. In general, UNODC field offices are small offices and either do not have ICT specialists or have only one specialist. On the other hand, Secretary-General's bulletins and Office of Information and Communications Technology technical procedures are high-level general guidelines addressing ICT matters throughout the United Nations. The Board sees the risk that in field offices these high-level guidelines may not be known or may not be applied appropriately and adequately during day-to-day work.

55. In the Board's view, to meet the special needs of field offices, the high-level guidelines must be reformulated into specialized guidelines. In doing so, industry standards should be taken into account. As the UNODC field office network encompasses offices in 74 field locations managed by 8 regional and 9 country offices, the Information Technology Service, as a UNODC headquarters service, should support the field offices by designing specialized guidelines such as standard operating procedures. Standard operating procedures and templates such as a disaster recovery plan template would provide greater confidence to ICT staff in field offices.

56. **The Board recommends that UNODC headquarters develop pragmatic ICT standard operating procedures and templates that field offices can use for the main ICT areas to ensure that compliance can be monitored.**

4. Inclusive and accessible United Nations for persons with disabilities

Focal point on disability and accessibility

57. A policy on employment and accessibility for staff members with disabilities in the United Nations Secretariat entered into force in June 2014 (see ST/SGB/2014/3). As UNODC is an integral part of the United Nations Secretariat (see ST/SGB/2015/3), it must comply with the policy.

58. The objectives of the policy are as follows:

(a) Ensure that staff members with disabilities have access to physical facilities, conferences and services, documentation and information, and professional development;

(b) Create a non-discriminatory and inclusive workplace with non-discriminatory recruitment and employment conditions and equal access to continuous learning, professional training opportunities and career advancement;

(c) Ensure that reasonable accommodation is provided;

(d) Improve accessibility and full inclusion;

(e) Improve and share knowledge and information about good practices on inclusive work environments within the United Nations system.

59. In order to achieve these objectives, the Organization is, inter alia, obliged to appoint focal points on disability and accessibility in the workplace. The Board noted that UNODC had established two focal points (the Chief of the Human Resources Management Service and the Chief of the General Support Section), both located in Vienna. According to the short description, both chiefs serve as focal points for the United Nations Office at Vienna and UNODC. UNODC stated that the two focal points have started fact-finding with UNODC field offices regarding local standards and existing local focal points (coordination offices) with the United Nations country teams. UNODC feels that the creation of focal points in each field office is not yet required, but the headquarters focal points will continue to liaise on this important matter with representative of the field offices. However, the Board noted that special focal points for personnel in the field offices do not exist.

60. **The Board recommends that UNODC consider appointing focal points on disability and accessibility issues in field offices.**

Standards for accessibility in field office premises

61. UNODC has set no standards for the accessibility of its field offices, whether they are administered by UNODC or are shared offices in United Nations common premises. Exemplified by the working agreement between the United Nations Development Programme (UNDP) and UNODC, UNDP is responsible for managing the rental and maintenance services of the office premises. The Board noted that accessibility matters related to the field office premises were not included in the working agreement. According to UNODC, these matters are handled locally.

62. **The Board recommends that UNODC set up standards for accessibility of field office premises.**

63. **The Board also recommends that UNODC consider cooperating with UNDP to implement standards for accessibility in UNDP-administered premises.**

5. Procurement management

Procurement monitoring

64. Procurement in UNODC is governed by regulations 5.12 and 5.13 of the Financial Regulations and Rules of the United Nations and is managed by the Procurement Unit at the United Nations Office at Vienna. The objective of procurement activities within the United Nations system is the timely acquisition of goods and services while addressing the following guiding principles: (a) fairness, integrity and transparency through competition; (b) economy and effectiveness; and (c) best value for money.

65. Since the introduction of Umoja in November 2015, the Procurement Unit has become aware of instances of goods delivered without a purchase order (ex post facto). In August 2016, when the number of cases increased, the Procurement Unit sent a reminder on how to proceed with ex post facto cases in procurement to UNODC offices worldwide. The reminder clearly outlined that ex post facto procurement did not comply with the Financial Regulations and Rules. As of November 2016, the Procurement Unit began recording the reported ex post facto cases. During the period from 1 November 2016 to 31 March 2017, the number of recorded ex post facto cases amounted to 121 ($1.1 million), mostly from field offices.

66. The Board analysed the job profiles of possible officials responsible for monitoring procurement activities, especially in field offices. The job profile for field representative contained an overall responsibility to manage the financial and human resources assigned to the local field office, ensuring appropriate coverage, guidance and supervision of staff. The responsibilities of the Chief of the Procurement Unit, as defined in the job profile, did not include any explicit monitoring of field offices.

67. The Board noted that the assigned responsibilities were likely not sufficient to prevent or reduce the ex post facto procurement cases. The Board held that there was no adequate technical oversight of the field offices to ensure that procurement activities were in line with the financial and procurement rules and regulations.

68. **The Board recommends that UNODC, in cooperation with the United Nations Office at Vienna, establish regular monitoring of procurement activities at UNODC headquarters and field offices and assign clear responsibilities for the monitoring process.**

Reporting tools for procurement

69. The funds managed by UNODC are mostly provided by governments for specific purposes. Procurement officers have to ensure that the funds they have been entrusted with are spent in a professional, proper and timely manner, in line with the guiding principles. In order to review how UNODC meets these requirements, the Board requested basic data on procurement, inter alia, by means of a questionnaire.

70. The Board noted that the Procurement Unit had difficulties in delivering the requested data. Some difficulties could be attributed to insufficient skills in handling the Umoja reporting tool and others to a lack of authorization in Umoja. Ultimately, in the course of the audit, the Board was able to receive the necessary information from the Procurement Unit.

71. The Board considers it important that the Procurement Unit be able to use miscellaneous tools for analysing and reporting on relevant procurement data. This would enable the officials responsible to take measures in order to prevent, detect and report irregularities.

72. **The Board recommends that UNODC, in cooperation with the United Nations Office at Vienna, organize additional training in Umoja's business intelligence and reporting tools in order to improve the reporting capacity of the Procurement Unit.**

6. Sustainable Development Goals

General approach by the Office to the Sustainable Development Goals

73. On 25 September 2015, by its resolution 70/1, entitled "Transforming our world: the 2030 Agenda for Sustainable Development", the General Assembly adopted 17 Sustainable Development Goals and 169 targets, which became effective on 1 January 2016. All countries and all stakeholders, acting in collaborative partnership, are to implement this plan in order to end poverty, protect the planet and ensure that all people enjoy peace and prosperity. Primary responsibility for the Goals lies with the governments. The United Nations plays a key role in mobilizing and sharing knowledge, expertise and technologies and assisting countries in raising financial resources to support the achievement of the Goals in all countries. At the global level, the 17 Goals and 169 targets of the new agenda will be monitored and reviewed using a set of global indicators.

74. In March 2017, the Statistical Commission, as a functional commission of the Economic and Social Council, agreed upon the global indicator framework developed and refined by the Inter-Agency and Expert Group on Sustainable Development Goal Indicators. Furthermore, the Inter-Agency and Expert Group elaborated a classification of Sustainable Development Goal indicators into three tiers based on their level of methodological development and data availability. On the basis of responses from United Nations international agencies, entities and organizations to an online questionnaire, the Inter-Agency and Expert Group set up a preliminary file containing, for example, tier assignments across the different targets and goals, a possible custodian agency or agencies responsible for compiling the data at the global level and for global reporting, and other involved agencies. This file needs to be updated and revised as additional information is received.

75. The Board noted that the online presence of UNODC showed one document related to the Sustainable Development Goals called "UNODC and the Sustainable Development Goals". In this document, UNODC identified 10 Goals and assigned targets to them that should be supported through its activities. The Board also noted that this document and the last updated tier classification for global Goal indicators, dated 20 April 2017, were not aligned with respect to targets and UNODC as the agency involved.

76. **The Board recommends that UNODC consider the document "UNODC and the Sustainable Development Goals" to be a "living" document and update it as necessary.**

77. **The Board also recommends that UNODC keep up and work on a regular basis with the Inter-Agency and Expert Group on Sustainable Development Goal Indicators in order to align its perception of the Sustainable Development Goals with that of Inter-Agency and Expert Group.**

Structuring Sustainable Development Goal integration

78. Towards the end of 2015, UNODC launched the process of supporting the Member States in implementing the Sustainable Development Goals. So far, UNODC has set up an informal working group and designated a special adviser to develop strategies and policies and implement recommendations on operationalizing the Goals in the field. Furthermore, in May 2017, UNODC began rolling out

tailored workshops for UNODC field office staff on integrating the Goals into the Office's programming efforts. In addition, the topic of the Goals and UNODC technical cooperation assistance will be discussed at the upcoming meeting of field representatives in June 2017. However, the Board noted that no focal points for the Goals had been officially introduced, which is of importance to the field offices.

79. Therefore, the Board is of the view that a clear structure would accelerate the exchange of information between UNODC headquarters and its field offices.

80. **The Board recommends that UNODC establish responsibilities at its field offices to share information on and experience with the Sustainable Development Goals between UNODC headquarters and its field offices.**

Strategic implementation support of the Sustainable Development Goals

81. The Board noted that UNODC had begun several activities regarding the localization of the Sustainable Development Goals at different levels within the organization, for example:

(a) In the third quarter of 2016, UNODC headquarters began discussions with the field representatives on operationalizing the Goals in the field programmes. UNODC plans to pursue Goal-related matters at the next annual meeting of field representatives in June 2017;

(b) UNODC headquarters integrated the Goals into the World Drug Report 2016;

(c) In its Regional Programme for West Africa (2016-2020), the Regional Office for West and Central Africa developed a framework for action to support Member States in achieving the Goals;

(d) The Regional Office for Central Asia participated in the localization process of the Goals through the United Nations country teams in the region and, in May 2017, benefitted from a first multi-level workshop on mainstreaming the Goals into regional programming efforts;

(e) The UNODC Research and Trend Analysis Branch, jointly with a government counterpart, connected the results of their study on opium poppy cultivation with the Goals in the report entitled "Evidence for enhancing resilience to opium poppy cultivation in Shan State, Myanmar", published in March 2017 by the Regional Office for Southeast Asia and the Pacific.

82. Nevertheless, the Board noted that there was no comprehensive and integrated approach to implementation support for the Sustainable Development Goals. The Board considers it necessary to develop a complete draft and long-term strategy for implementing the 2030 Agenda for Sustainable Development.

83. **The Board recommends that UNODC adapt its strategic planning in order to establish a long-term strategy for effective and coherent support with regard to implementing the Sustainable Development Goals.**

84. **The Board also recommends that UNODC align all programmes and activities to the Sustainable Development Goals and, where applicable, to concrete targets, so that its work on the Goals becomes more visible and its actions receive more recognition.**

E. Disclosures by management

1. Write-off of losses of cash, receivables and property

85. UNODC stated that it had formally written off receivables balances of $9.49 million in 2016 (2015: $17.10 million), which have been charged against the special purpose funds. In addition, $5.14 million (2015: $5.62 million) of non-expendable property assets by net book value were written off in 2016, the majority of which related to assets transferred to beneficiaries on completion of projects funded by donors.

2. Ex gratia payments

86. UNODC stated that ex gratia payments were not made in 2016 (2015: nil).

3. Cases of fraud and presumptive fraud

87. In accordance with the International Standards on Auditing (ISA 240), the Board plans its audits of the financial statements so that it has a reasonable expectation of identifying material misstatements and irregularity (including those resulting from fraud). The audit, however, should not be relied upon to identify all misstatements or irregularities. The primary responsibility for preventing and detecting fraud rests with management.

88. The Board has not identified any instances of fraud in its audit, and no cases have come to its attention through its testing.

89. During 2016, UNODC notified the Board of one case of presumptive fraud in 2015 relating to the purchase of fuel for personal consumption. The person involved in the alleged fraud is a staff member under the administration of UNDP, and the investigation has been postponed to 2017. The amounts involved are being investigated. Another case of potential fraud ($2,900) was reported to the Office of Internal Oversight Services, and an investigation was initiated regarding claims and bills submitted by a staff member, in 2016, which were noted to be lacking dates and references, which resulted in the suspension of payments. The cases reported to the Board include only those in which the fraud, or presumptive fraud, affected UNODC directly.

F. Acknowledgement

90. The Board wishes to express its appreciation for the cooperation and assistance extended to its staff by the Executive Director and members of his staff.

(*Signed*) Shashi Kant **Sharma**
Comptroller and Auditor General of India
Chair of the Board of Auditors

(*Signed*) Kay **Scheller**
President of the German Federal Court of Auditors
(Lead Auditor)

(*Signed*) Mussa Juma **Assad**
Controller and Auditor General of the
United Republic of Tanzania

30 June 2017

Annex

Status of implementation of recommendations up to the year ended 31 December 2015

No	*Audit year biennium*	*Report reference*	*Recommendations of the Board*	*UNODC response*	*Board's assessment*	*Status after verification*			
						Implemented	*Under implementation*	*Overtaken by events*	*Not implemented*
1.	2015	A/71/5/Add.10, chap. II, para. 17	The Board recommended that the Financial Resources Management Service undertake a thorough review of close-down procedures as Umoja reporting functionality is enhanced and seek early engagement with the Board on the audit trail, working papers and closure processes that will be provided to support the 2016 audit process.	The closing process was coordinated in conjunction with the Office of Programme Planning, Budget and Accounts. Discussion with the Board was initiated.	The Board took note of progress made and concluded that the recommendation has been implemented.		X		
2.	2015	A/71/5/Add.10, chap. II, para. 18	The Board recommended that UNODC ensure that key financial reconciliations are undertaken on a systematic basis and that control accounts are maintained to facilitate the review of key balances on a regular basis.	Estimated completion date: December 2017. A dashboard has been created centrally by the Office of Programme Planning, Budget and Accounts to monitor the key reconciliations with target performance indicators.	The Board acknowledges the progress that has been made, but considers implementation to be in progress.			X	
3.	2015	A/71/5/Add.10, chap. II, para. 24	The Board recommended that UNODC provide specific training for programme staff to ensure that they understand the rules and procedures for processing Umoja transactional workflows, for which they now have responsibility, and furthermore that management support the Financial Resources Management Service in	The 2016 Umoja training plan was completed. UNODC has the largest number of staff members trained in grants and projects management in the Secretariat, largely due to its dispersed field operations, with some 200 personnel trained. Further sessions (about four) are planned for 2017.	The Board took note of progress made and concluded that the recommendation has been implemented.		X		

No.	Audit year: biennium	Report reference	Recommendations of the Board	UNODC response	Board's assessment	Status after verification: Implemented	Under implementation	Overtaken by events	Not implemented
			ensuring compliance with Umoja and year-end process.						
4.	2015	A/71/5/Add.10, chap. II, para. 25	The Board recommended that UNODC seek to minimize the number and complexity of journal entries, and ensure that all journals are accurately described and supported within the system documentation to aid efficiency and review.	Estimated completion date: October 2017. All supporting documents are uploaded to Umoja to the extent that the system or the process will allow. The outcome can be measured upon the completion of the audit.	The Board acknowledges the progress that has been made, but considers implementation to be in progress.		X		
5.	2015	A/71/5/Add.10, chap. II, para. 30	The Board recommended that as Umoja reporting functionality develops, a systematic process be established to monitor and report on compliance, and that the data be used to inform training needs and to enhance the culture of compliance and effective operation of Umoja within UNODC.	The 2016 training plan was revamped and executed. The training strategy for 2017 is being developed, but this is a mainstreaming exercise rather than a catch-up exercise, as the majority of staff who operate in Umoja have now been trained.	The Board took note of progress made and concluded that the recommendation has been implemented.	X			
6.	2015	A/71/5/Add.10, chap. II, para. 33	The Board recommended that UNODC make better use of existing risk material collated to inform management decisions, and that risks and their mitigations be regularly reviewed by senior management and reassessed to inform the corporate risk register.	Estimated completion date: March 2018. The pilot testing of the full cost recovery barometer is ongoing and first results are expected. The review of the enterprise risk management framework for the United Nations Office at Vienna/UNODC will be conducted in 2017 following the review of the enterprise risk management framework of the Secretariat and in line with the timeline	The Board acknowledges the progress that has been made, but considers implementation to be in progress.		X		

No	Audit year biennium	Report reference	Recommendations of the Board	UNODC response	Board's assessment	Status after verification: Implemented	Under implementation	Overtaken by events	Not implemented
				established by New York. In that context, the review will establish the applicability of separating the risk registers for UNODC and the United Nations Office at Vienna.					
7.	2015	A/71/5/Add.10, chap. II, para. 42	The Board recommended that UNODC provide a greater level of detail to support the reasons for variations between original, revised and final projected budgets, and that any assumptions that might give rise to out-turn variations be highlighted to enhance oversight and accountability.	More detailed financial analysis was provided in the 2015 financial statements of UNODC as well as in the implementation report on the consolidated budget of UNODC (E/CN.7/2016/17-E/CN.15/2016/14). The Financial Resources Management Service of the Division for Management will continue to work closely with UNODC programme managers to provide better variance explanations going forward.	The Board took note of progress made and concluded that the recommendation has been implemented.		X		
8.	2015	A/71/5/Add.10, chap. II, para. 48	The Board recommended that greater rigour be imposed on budget holders in supporting the assumptions underpinning the quality of their proposed budgets and expenditure profiles. There is scope for the Financial Resources Management Service to meet more frequently with the UNODC directors, as well as for field office programme managers to confirm, on a risk basis, whether the analysis of budgeted spend is relevant to reinforce the	As part of the implementation report on the consolidated budget of UNODC (E/CN.7/2016/17-E/CN.15/2016/14), UNODC carried out a thorough review of its programme portfolio. The forecast for programme delivery was adjusted downward by $60 million. The reasons for the lower forecast were analysed. More information on implementation by region was also provided.	The Board took note of progress made and concluded that the recommendation has been implemented.		X		

No.	Audit year biennium	Report reference	Recommendations of the Board	UNODC response	Board's assessment	Status after verification: Implemented	Under implementation	Overtaken by events	Not implemented
			accountabilities for the use of allocated resources and to assess the reasonableness of the proposed budgets.						
9.	2015	A/71/5/Add.10, chap. II, para. 49	The Board recommended further improvement in the quality of the analysis of budget variances reported to senior management; this should include clear and specific actions for budget holders to reprofile budgets where appropriate and be reported more frequently.	Please refer to the update on recommendation No. 8, above.	The Board took note of progress made and concluded that the recommendation has been implemented.		X		
10.	2015	A/71/5/Add.10, chap. II, para. 58	The Board recommended that UNODC continue with the implementation of its full cost recovery initiatives and use the information to build a more systematic approach to efficiency activities, to enable their success to be measured and to evaluate the benefits of individual savings measures. UNODC could then use the results of a more systematic process to provide a platform for field offices to share successful efficiency measures across its operations.	A thorough review of field office costs vis-à-vis programme portfolio was carried out in the fourth quarter of 2016 as part of the implementation report on the consolidated budget of UNODC (E/CN.7/2016/17-E/CN.15/2016/14). This review resulted in saving and efficiency measures of $2.7 million.	The Board took note of progress made and concluded that the recommendation has been implemented.		X		
11.	2015	A/71/5/Add.10, chap. II, para. 64	The Board recommended that UNODC develop its standard performance indicators to ensure that they allow programmes to be properly measured at an operational and strategic level.	Estimated completion date: March 2018. With regard to thematic areas under the responsibility of the Division for Treaty Affairs, sets of standard indicators have already been developed.	The Board acknowledges the progress that has been made, but considers implementation to be in progress.			X	

No.	Audit year biennium	Report reference	Recommendations of the Board	UNODC response	Board's assessment	Status after verification: Implemented	Under implementation	Overtaken by events	Not implemented
12.	2015	A/71/5/Add.10, chap. II, para. 67	The Board recommended that UNODC project teams clearly articulate the delivery record of the project before seeking additional approvals for the project, so as to strengthen the confidence of the approvals committee that any revisions are reasonable and supported by clear evidence.	Estimated completion date: March 2018. Project revisions submitted to the Programme Review Committee extensively articulate programme achievements and results. Improved consistency in reporting on results will be reviewed.	The Board acknowledges the progress that has been made, but considers implementation to be in progress.		X		
13.	2015	A/71/5/Add.10, chap. II, para. 72	The Board recommended that UNODC further explore the administrative and substantive reasons for the rejection of project plans and use this information to inform improvements to the guidance for project teams. Furthermore, UNODC could monitor performance against target times for each stage of the clearance process to provide better information to identify any inefficient elements.	Estimated completion date: March 2018. Implementation is in progress.	The Board acknowledges the progress that has been made, but considers implementation to be in progress.		X		
14.	2015	A/71/5/Add.10, chap. II, para. 76	The Board recommended that UNODC enhance the accountabilities for the management of funding risks within projects, requiring teams to specify how their funding gap will be filled, to identify the degree of project and cost risk and what mitigations can be taken.	Estimated completion date: March 2018. Specific attention is being paid to the risk matrix in programme/project submissions to ensure that funding risks are addressed as required.	The Board acknowledges the progress that has been made, but considers implementation to be in progress.		X		

No.	Audit year: biennium	Report reference	Recommendations of the Board	UNODC response	Board's assessment	Status after verification: Implemented	Under implementation	Overtaken by events	Not implemented
15.	2015	A/71/5/Add.10, chap. II, para. 81	The Board recommended that UNODC consider a strategy to deal with any financial reporting backlog and identify and address any gaps in reporting functionalities that are creating delays in the reporting timeline.	Estimated completion date: September 2017. 2015 donor reports for operational projects are 95 per cent complete. The remaining outstanding reports are expected to be finalized with the 2016 donor reports. With the improved Umoja functionality, improved delivery for 2016 donor reports is expected.	The Board acknowledges the progress that has been made, but considers implementation to be in progress.		X		
16.	2015	A/71/5/Add.10, chap. II, para. 82	The Board recommended that UNODC centrally monitor the reporting requirements of donors and develop a methodology for donor financial reporting that creates a consistent reporting framework that is aligned to the information that can be produced efficiently from its systems. Furthermore, UNODC should do more to influence donors in agreeing a financial reporting framework aligned to internal reporting cycles and to follow as closely as possible a common reporting template.	Estimated completion date: July 2018. UNODC will reinforce the standard reporting process as follows: • Reinforce corporate standards within Umoja and explain the benefits of standard reporting to donors and programme managers. • Coordinate with the Office of the United Nations Controller to address standard reporting in United Nations system-wide agreements.	The Board acknowledges the progress that has been made, but considers implementation to be in progress.		X		
17.	2015	A/71/5/Add.10, chap. II, para. 86	The Board recommended that UNODC consider the scope for simplifying the reporting structure, for example, by only reporting changes from the previous submissions, through better	Estimated completion date: March 2018. The beta version of the programme management donor dashboard is currently being further developed to better address needs	The Board acknowledges the progress that has been made, but considers implementation to be in progress.		X		

No.	Audit year biennium	Report reference	Recommendations of the Board	UNODC response	Board's assessment	Status after verification: Implemented	Under implementation	Overtaken by events	Not implemented
			use of graphics to show progress against targets, and through the inclusion of key expenditure data to identify departures from the agreed forecasts and to highlight reasons for variances in spending and activity.	expressed by Member States.					
18.	2014	A/70/5/Add.10, chap. II, para. 9	The Board recommended that management embed the financial disciplines required by IPSAS across its operations, and that staff engage in the maintenance of timely and accurate financial records and fully utilize the better quality financial information outputs to support its decision-making.	Estimated completion date: September 2017. Beginning September 2016, the Financial Resources Management Service started to organize training sessions adapted to Umoja processes for an intended audience of finance users, certifying officers, requisitioners and goods receiving officers, for both the United Nations Office at Vienna and UNODC. An assessment and lessons-learned exercise will take place after the 2016 financial statements are issued to address further needs.	The Board's audit of 2016 has identified areas where there remains scope for UNODC to better embed the IPSAS culture, and in particular to ensure greater understanding of the importance of the delivery concept and greater discipline with regard to income recognition, accruals and obligations. The Board has noted management's commitment to learn lessons and respond to this recommendation, which remains under implementation.		X		
19.	2014	A/70/5/Add.10, chap. II, para. 18	The Board recommended that UNODC develop fraud risk assessments to identify areas where it is most susceptible to fraud within its operations. These should be used to inform the development of risk mitigation plans to focus training and targeted exception reporting to detect cases of fraud.	Estimated completion date: October 2017. The Anti-Fraud and Anti-Corruption Framework of the United Nations Secretariat was issued in September 2016. In line with the Framework, UNODC is currently establishing action points for dissemination, awareness, support and monitoring of the	The Board understands that work is being undertaken in New York to develop these tools, but considers that more could still be done locally to assess the specific risks to UNODC.		X		

No.	Audit year/ biennium	Report reference	Recommendations of the Board	UNODC response	Board's assessment	Status after verification: Implemented	Under implementation	Overtaken by events	Not implemented
				Framework. Enterprise risk considerations will also be evaluated.					
20.	2014	A/70/5/Add.10, chap. II, para. 22	The Board recommended that management: (a) further improve the quality of the analysis of budget variances reported to senior management and that these should include clear actions to redeploy or reprofile the budget, where appropriate; and (b) review the budget and cost allocations between the activities of the Drug and Crime Programmes to strengthen the segmental reporting within the financial statements.	More detailed financial analysis was provided in the 2015 financial statements of UNODC, in the reports submitted to the Executive Committee in the second and third quarters of 2016, and in the implementation report on the consolidated budget of UNODC (E/CN.7/2016/17-E/CN.15/2016/14). The Financial Resources Management Service of the Division for Management will continue to work closely with UNODC programme managers to provide better variance explanations going forward.	The Board took note of progress made and concluded that the recommendation has been implemented.		X		
21.	2014	A/70/5/Add.10, chap. II, para. 26	The Board recommended that management: (a) establish clear project milestones and resource plans at the local UNODC level to ensure successful transition to Umoja, especially in respect of data cleansing, so as to minimize the impact on the preparation of the financial statements for 2015; and (b) develop a clear timeline on how remaining legacy system risks will be addressed.	The Umoja deployment team in New York centrally prepared the Umoja deployment milestones for all cluster 4 entities, including for UNODC and the United Nations Office at Vienna. This included the milestones for data cleansing and other preparatory activities.	As the Board noted in the main body of its report, the preparation for Umoja and the conversion of legacy data went relatively well up to the switchover in November 2015. This recommendation specifically related to Umoja implementation and has therefore been closed.			X	

No.	Audit year/ biennium	Report reference	Recommendations of the Board	UNODC response	Board's assessment	Status after verification: Implemented	Under implementation	Overtaken by events	Not implemented
22.	2014	A/70/5/Add.10, chap. II, para. 33	The Board recommended that UNODC ensure the consistent use of the standard outcomes that have been developed for each thematic area in all its programmes and projects so as to ensure alignment with strategic objectives.	UNODC considers this recommendation implemented. The Office continues to ensure that standard indicators are used for new projects and/or in project revisions of earlier projects.	The Board has reviewed the standard indicators and their adoption by project teams. The Board recognizes that the new set of performance indicators are still in draft format and has made recommendations on how they could be improved, as well as the design of projects in terms of the type and number of indicators used. This recommendation is therefore overtaken by events.			X	
23.	2014	A/70/5/Add.10, chap. II, para. 40	The Board recommended that UNODC: (a) utilize the improved cost data to inform strategies for funding priorities and efficiency programmes; (b) complete the roll-out of full cost recovery to projects, strengthening guidance and training support to enable staff to understand the principles and how they should be applied to project activity; and (c) introduce an assurance/review process to ensure that the costs are consistently and reliably classified across the business in line with the framework.	Estimated completion date: December 2017. On 27 July 2016, the Financial Resources Management Service issued a new guide on the implementation of full cost recovery in UNODC. UNODC will continue to report on the status of implementation of full cost recovery to the UNODC Commissions. The pilot testing of the full cost recovery barometer is ongoing and first results are expected by the end of the first quarter of 2017.	The Board noted the delays to the implementation of the full cost recovery exercise. It remains important that UNODC improve the consistency and accuracy of cost data. There remains a need to create an assurance framework with regard to the cost classifications to ensure that the full cost classifications are robust and enjoy the confidence of stakeholders. The Board will continue to monitor progress.		X		
24.	2014	A/70/5/Add.10, chap. II, para. 44	The Board recommended that, to embed an evaluation culture, individual project managers take responsibility	Estimated completion date: September 2017. In 2016, the UNODC Independent Evaluation	The Board is encouraged by the progress being made. The Board has yet to see evidence of how senior			X	

No.	Audit year/ biennium	Report reference	Recommendations of the Board	UNODC response	Board's assessment	Status after verification: Implemented	Under implementation	Overtaken by events	Not implemented
			for their projects to be evaluated. Compliance with this activity should be included in the performance appraisal system. Furthermore, the implementation rates of evaluation recommendations should be monitored by senior *management.*	Unit was the subject of a peer review. As a result of this independent assessment, the Unit is undergoing structural changes and reforms. The implications of these changes and reforms have a direct impact on the funding model, human resources *structure and staffing. These* changes will be reflected in a new evaluation policy that will be issued during 2017.	management are sighted upon the extent to which project evaluation is embedded, and how the data are used to drive evaluation further how they are being embedded within the appraisal system. The Board therefore considers implementation to be in *progress.*				
25.	2014	A/70/5/Add.10, chap. II, para. 50	The Board recommended that management: (a) complete the roll-out of the risk management process and collate the information in divisional and field registers into an organizational risk register; (b) regularly review and update the register to facilitate its use as an operational tool for decision-making across UNODC; and (c) consider whether it remains appropriate for the aggregation of the risks of UNODC and the United Nations Office at Vienna in the same register.	UNODC is implementing the full cost recovery barometer, a management dashboard, with the aim of aiding managers at headquarters and in the field to monitor, analyse and address the fluctuation in the cost recovery rates. The pilot testing of the full cost recovery barometer is ongoing and the first results are expected by the end of the first quarter of 2017. The review of the enterprise risk management framework for the United Nations Office at Vienna and UNODC will be conducted in 2017 in line with the timeline established by New York.	The Board has noted progress in the risk management processes of UNODC. It notes that: (a) The roll-out will be completed by the first quarter of 2017; (b) There remains scope to use the wider risk registers as tools to support decision-making processes, but this is evolving in respect of full cost recovery risks; (c) UNODC will determine the applicability of separating the risk registers for UNODC and the United Nations Office at Vienna during 2017.		X		
26.	2014	A/70/5/Add.10, chap. II, para. 57	The Board recommended that management further develop their understanding of project staffing	Estimated completion date: December 2017. UNODC has prepared a draft analysis of staff at all	The Board acknowledges the efforts being made, but notes that all UNODC field offices, not only major field			X	

No.	Audit year/ biennium	Report reference	Recommendations of the Board	UNODC response	Board's assessment	Status after verification: Implemented	Under implementation	Overtaken by events	Not implemented
			requirements by reviewing, within the constraints of the United Nations Secretariat global staffing model, processes to headquarters and regional staffing plans, balancing an optimal use of resources between headquarters, field staff and grade profiles.	major UNODC field offices with a comparison of 2016 and 2017 budgets (initial and revised). UNODC is currently preparing a breakdown of the post information by individual position to be able to further analyse the expenditures in the field.	offices, should be included in the analysis. Otherwise, balancing an optimal use of resources between headquarters, field staff and grade profiles cannot be ensured.				
27.	2014	A/70/5/Add.10, chap. II, para. 65	The Board recommended that UNODC should: (a) within the constraints of the United Nations Secretariat global staffing model, build a model for the optimal workforce composition, capability and training needs in a medium- and long-term staffing plan; (b) use the opportunity afforded by Umoja to improve the collection of comprehensive workforce data, and utilize this to plan recruitment and the staff and capability requirements to meet the future anticipated needs of the business; and (c) consider the re-establishment of "roving teams" within headquarters that can support field offices on a short-term basis.	Estimated completion date: December 2017. The Human Resources Management Service has prepared a detailed analysis of UNODC headquarters and field office positions by grade and funding source, comparing data from 2016 and 2017. The overall analysis concluded that there is a slight grade drift (+1.4 per cent) from G-4 to G-5 posts, and to a lesser extent between G-6 and G-7 posts (+0.6 per cent), as well as between P-2, P-3 and P-4 posts (0.6-0.9 per cent). The Service will further review and analyse the data in conjunction with staff cost data expected from UNODC.	The Board is encouraged by the progress being made, but considers implementation to be in progress, as important staff cost data for a further analysis are pending.		X		
28.	2014	A/70/5/Add.10, chap. II, para. 71	The Board recommended that UNODC improve the quality of the data collected on recruitment and track the impact of any delays in the	Statistical information on recruitment activities is globally taken from the human resources management scorecard,	The Board understands that UNODC cannot use the business intelligence reports as they are not yet available, but notes that UNODC		X		

No.	Audit year biennium	Report reference	Recommendations of the Board	UNODC response	Board's assessment	Status after verification			
						Implemented	Under implementation	Overtaken by events	Not implemented
			process on operational delivery.	maintained by the Office of Human Resources Management of the Secretariat. The Human Resources Management Service uses this system for consistency across all departments and offices. The Service is in close contact with the Office of Human Resources Management scorecard team to report delays and inconsistencies with regard to data provided. Corrections or guidance on the computation of indicators is provided by the Office of Human Resources Management.	should closely monitor the development of the reports and use them as soon as possible.				
29.	2014	A/70/5/Add.10, chap. II, para. 72	The Board recommended that UNODC learn lessons from the Office of the United Nations High Commissioner for Refugees (UNHCR) and others that use a mobility framework and ensure that implementation of the framework is informed by their observations.	Estimated completion date: December 2017. United Nations Headquarters has requested the United Nations Office at Vienna/UNODC to support the Office of Human Resources Management in the new staff selection and mobility system and to establish a network staffing team for the Information and Telecommunication Technology Network at the United Nations Office at Vienna. The Human Resources Management Service has consulted with other Vienna-based international organizations	The Board notes the efforts being made, but still expects UNODC to learn lessons from UNHCR as well.		X		

No.	Audit year biennium	Report reference	Recommendations of the Board	UNODC response	Board's assessment	Status after verification: Implemented	Under implementation	Overtaken by events	Not implemented
				that are not part of the Secretariat to learn from their mobility initiatives.					
30.	2012-2013	A/69/5/Add.10, chap. II, para. 20	The Board recommended that any system enhancements be coordinated to benefit both the immediate user and the corporate need. The ability to easily monitor and review financial management information centrally is severely limited by the functionality and fragmentation of the systems. At the same time, UNODC operates a highly decentralized system of controls.	UNODC now adheres to the global governance on systems development as set out by the Office of Information and Communications Technology at United Nations Headquarters and the Umoja project. Within this framework, UNODC is taking an active role in requirements gathering, acceptance and testing of Umoja Extension 2, due in 2018. The United Nations Office at Vienna/UNODC developed the Umoja programmatic reporting dashboard, which combines legacy and Umoja data and will be used across the United Nations Secretariat.	The Board took note of progress made and concluded that the recommendation has been implemented.	X			
31.	2012-2013	A/69/5/Add.10, chap. II, para. 26	The Board recommended that UNODC strengthen its quarterly review activity so that validity and accuracy of unliquidated obligations are assured, and consider increasing guidance and oversight in this area to better ensure commitments are updated timeously.	The review of unliquidated obligations intensified with the transition to Umoja. Special messages were issued to all users in order to ensure diligent review of unliquidated obligations in preparation for transition to Umoja (message of the day of 22 July and 3 August 2015).	This recommendation has been superseded by the observations arising from the 2015 audit.			X	
32.	2012-2013	A/69/5/Add.10, chap. II, para. 34	The Board recommended that UNODC develop solutions for IPSAS	The recommendation has been superseded and should be closed, given the Umoja	While the 2015 financial closure and accounts production processes were			X	

No.	Audit year biennium	Report reference	Recommendations of the Board	UNODC response	Board's assessment	Status after verification: Implemented	Under implementation	Overtaken by events	Not implemented
			implementation and embed timely data entry and validation requirements into the business as a matter of urgency.	implementation.	again highly manual, the point has been captured in the wider financial management recommendations for 2015, and therefore this recommendation can be closed.				
33.	2012-2013	A/69/5/Add.10, chap. II, para. 38	The Board recommended that, by July 2014, UNODC finalize its organizational risk register by prioritizing the risks and identifying mitigating actions. The register should be reviewed regularly by the senior management team of UNODC, and action taken to mitigate any risks that arise.	Enterprise risk management reports covering information on both the United Nations Office at Vienna/UNODC register and the divisional registers are being prepared quarterly and submitted to senior managers and the Executive Committee for consideration.	The Board has updated progress made in its current report and considers that there remains scope to formalize the engagement of senior management in the corporate risk process. The recommendation has been superseded.			X	
34.	2012-2013	A/69/5/Add.10, chap. II, para. 46	The Board recommended that, on a regular basis, UNODC analyse the reasons for project revisions and extensions in order to assess whether the current project-based approach is the most efficient way to secure funding to deliver its outcomes and to determine the scope to improve project planning.	With regard to approvals (of project revisions) at UNODC headquarters, most projects that follow the direct approval modality are processed within a week. Delays occur when there are quality control issues.	The Board has reviewed evidence of the scrutiny surrounding the rationale for a project revision and understands that such revisions are business as usual for how UNODC operates. The Board has made further recommendations with regard to the approval process; this recommendation has therefore been overtaken by events.			X	
35.	2012-2013	A/69/5/Add.10, chap. II, para. 58	The Board recommended that UNODC review current reporting requirements, both for internal purposes and for donors, to determine	The implications of Umoja on reporting are still under review.	The Board has reviewed existing reports and found opportunities to make them clearer and easier to follow, enabling better oversight. It			X	

No.	Audit year: biennium	Report reference	Recommendations of the Board	UNODC response	Board's assessment	Status after verification: Implemented	Under implementation	Overtaken by events	Not implemented
			whether there is a more economical way to carry out such reporting, for example, by streamlining or rationalizing reporting requirements or by minimizing the input required by project staff.		has made a recommendation on this matter. Therefore, the implementation of this recommendation has been overtaken by events.				
36.	2012-2013	A/69/5/Add.10, chap. II, para. 75	The Board recommended that UNODC enhance its framework for the engagement of external parties.	Estimated completion date: December 2017. The Internal Audit Division of the Office of Internal Oversight Services (OIOS) has included a review of the Framework on the Engagement of External Parties in its 2017 preliminary audit work plan for UNODC. The OIOS review is ongoing. The field work was conducted in late February/early March of 2017. The results are to be discussed in an exit meeting scheduled for early May 2017; thereafter, the reporting process will commence.	The Board reviewed the progress made so far and will continue to monitor the upcoming developments.			X	
37.	2012-2013	A/69/5/Add.10, chap. II, para. 77	The Board recommended that UNODC, in particular its Division for Operations, monitor compliance with the framework for the engagement of external parties and, by July 2015, analyse whether its introduction has resulted in any significant changes in the pace or scope of project delivery.	As mentioned in the update on recommendation No. 36, above, the Framework on the Engagement of External Parties has been revised and implementation is ongoing.	This recommendation has been overtaken by events following findings for the 2015 audit, which led to the recommendation for the Framework on the Engagement of External Parties to be independently evaluated.			X	

No.	Audit year biennium	Report reference	Recommendations of the Board	UNODC response	Board's assessment	Status after verification: Implemented	Under implementation	Overtaken by events	Not implemented
38.	2010-2011	A/67/5/Add.9, chap. II, para. 93	The Board recommended that, by September 2012, all new project proposals: (a) clearly and succinctly define the problem that the project is intended to address; (b) establish a clear baseline against which to assess delivery, or provide a clear explanation of how the baseline will be established; (c) identify and document the material risks and mitigating actions, including setting aside an element of contingency within project budgets, to address unknown risks.	Setting up contingency funds is not in line with programme/project policies, except for European Union-funded projects that have a separate line for contingency reserve.	The Board reviewed project documentation and found that it clearly defined the problem that the activity intended to resolve and how the project aligns with UNODC strategic objectives, but only 5 of the 10 projects had established a baseline. Further improvements need to be made with regard to risk management. The Board has made recommendations in 2015 that supersede this one; therefore, this recommendation's status is "Overtaken by events".			X	
Total						**11**	**18**	**9**	**0**
Percentage						**29**	**47**	**24**	**0**

Chapter III
Certification of the financial statements

Letter dated 31 March 2017 from the Chief of the Financial Resources Management Service of the United Nations Office on Drugs and Crime addressed to the Chair of the Board of Auditors

The financial statements of the United Nations Office on Drugs and Crime (UNODC) for the year ended 31 December 2016 have been prepared in accordance with financial rule 106.1 of the Financial Regulations and Rules of the United Nations.

The summary of significant accounting policies applied in the preparation of these statements is included as notes to the financial statements. These notes and the accompanying schedules provide additional information on and clarification of the financial activities undertaken by UNODC during the period covered by these statements.

I certify that the appended financial statements of UNODC are correct on the basis of our records and reports from executing agencies.

(*Signed*) Polinikis **Sophocleous**
Chief, Financial Resources Management Service
United Nations Office on Drugs and Crime

Chapter IV
Financial report for the year ended 31 December 2016

A. Introduction

1. In accordance with General Assembly resolutions 46/185 C and 61/252, the Executive Director of the United Nations Office on Drugs and Crime (UNODC) is herewith submitting the financial report and financial statements for the year ended 31 December 2016 for UNODC.

2. The financial report and financial statements provide the consolidated results related to the acquisition and utilization of voluntary contributions and the administration of regular budget resources entrusted to UNODC. The voluntary funds include the Fund of the United Nations International Drug Control Programme and the United Nations Crime Prevention and Criminal Justice Fund. The regular budget resources for UNODC have been approved by the General Assembly.

3. Information on the financial results for the Fund of the United Nations International Drug Control Programme and the United Nations Crime Prevention and Criminal Justice Fund is provided under note 3 to the financial statements, Segment reporting.

B. Operational context

4. UNODC is mandated to work with Member States to enhance their responses to the interconnected problems of drug use, illicit drug trafficking, trafficking in human beings and firearms, transnational organized crime, corruption and terrorism. To achieve this, UNODC helps Member States to create and strengthen legislative, judicial and health systems to better safeguard their populations, especially the most vulnerable persons.

5. In order to enhance the effectiveness and accountability of the Office, as well as to strengthen results-based management, UNODC is organized into six thematic subprogrammes: Countering illicit drug trafficking and transnational organized crime; Prevention, treatment and reintegration, and alternative development; Countering corruption; Terrorism prevention; Justice; and Research, trend analysis and forensics. The Office also has three cross-cutting subprogrammes that provide services to Member States: Policy support; Technical cooperation and field support; and Provision of secretariat services and substantive support to the governing bodies and the International Narcotics Control Board.

6. The programme of work is delivered by the three substantive divisions, namely the Division for Operations, the Division for Policy Analysis and Public Affairs and the Division for Treaty Affairs. A fourth division, the Division for Management, is accountable for the delivery of administrative services and oversight. Through the Division for Operations, UNODC operates in all regions of the world through an extensive network of regional offices (8), country offices (7), programme offices (50) and liaison and partnership offices (2).

7. Strong emphasis is placed on addressing issues that cut across subprogrammes, allowing for the leveraging of complementarities and synergies among the Office's divisions and extensive field office network. Thematic experts of the Office perform both normative and operational work and facilitate the development and delivery of technical cooperation programmes at the global, regional and country levels.

8. UNODC carries out its activities in cooperation with other departments and offices of the Secretariat and entities of the United Nations system, in particular the Office of the United Nations High Commissioner for Human Rights, the Counter-Terrorism Implementation Task Force and the Counter-Terrorism Executive Directorate, the United Nations Children's Fund, the United Nations Development Programme (UNDP), the United Nations Human Settlements Programme, the United Nations Entity for Gender Equality and the Empowerment of Women (UN-Women), the Joint United Nations Programme on HIV/AIDS (UNAIDS), the International Labour Organization, the International Fund for Agricultural Development, the United Nations Industrial Development Organization, the World Health Organization and the World Bank, as well as the secretariat of the Convention on International Trade in Endangered Species of Wild Fauna and Flora. UNODC continues to promote the coherence of United Nations initiatives on the rule of law by participating in the Rule of Law Coordination and Resource Group and by providing expertise and support to UNDP and the Department of Peacekeeping Operations of the Secretariat in their roles as global focal points for the police, justice and corrections areas of the rule of law in post-conflict and other crisis situations.

C. Activity overview

9. In 2016, the preparations for, conduct of and immediate follow-up to the special session of the General Assembly on the world drug problem, held from 19 to 21 April 2016, took centre stage. Assistance was also provided for the follow-up action led by the Commission on Narcotic Drugs, which was based on a comprehensive approach covering all seven thematic areas contained in the outcome document of the special session, and an inclusive format involving all interested stakeholders.

10. During 2016, the Office strengthened its efforts to generate new and innovative approaches to implementing the 2030 Agenda for Sustainable Development, in line with its mandates. UNODC also participated in discussions related to the Addis Ababa Action Agenda of the Third International Conference on Financing for Development, in particular on the subjects of countering corruption and illicit financial flows and on promoting and assisting in asset recovery. Furthermore, UNODC assisted the Commission on Narcotic Drugs and the Commission on Crime Prevention and Criminal Justice in submitting contributions to the integration segment of the Economic and Social Council and the high-level political forum on sustainable development. To implement the Doha Declaration on Integrating Crime Prevention and Criminal Justice into the Wider United Nations Agenda to Address Social and Economic Challenges and to Promote the Rule of Law at the National and International Levels, and Public Participation, UNODC, with the financial support of Qatar, launched a wide-ranging global programme aimed at helping countries achieve a positive and sustainable impact on criminal justice, corruption prevention and the rule of law.

11. The Office continued to respond to the growing demand for its services through a new generation of integrated programmes that are closely linked to the 2030 Agenda for Sustainable Development and by increasing efforts to ensure complementarity between global, regional and national efforts at the normative and technical support levels. The links between the various stages of the programming cycle were strengthened and the senior-level programme review committee ensured that the results of the programme implementation were reviewed, obstacles were identified and corrective action was taken. The Office continued to learn from and build on evaluation results and to turn recommendations into action points. The

Office also continued to enhance the alignment between the normative and operational pillars of its work by focusing on results and continuing to implement the recommendations of oversight bodies with regard to results-based management.

12. UNODC undertook efforts to mainstream gender into all stages of the development, implementation, monitoring and evaluation of its policies and programmes, which also supported the implementation of the 2030 Agenda for Sustainable Development.

Highlights by region

13. In Africa and the Middle East, UNODC launched three new integrated regional programmes on drugs and crime for the Middle East and North Africa, East Africa and West Africa, and a new interregional initiative linking Latin America, the Caribbean and West Africa aimed at improving criminal justice and law enforcement action along the cocaine trafficking route. UNODC also expanded its comprehensive response to the United Nations integrated strategy for the Sahel.

14. In West and Central Asia, UNODC began the implementation of the second phase of the regional programme for Afghanistan and neighbouring countries. The programme is fully incorporated into the UNODC interregional drug control approach and works in synergy with other UNODC regional programmes, global strategies and initiatives.

15. In South Asia, East Asia and the Pacific, UNODC developed a new comprehensive country programme for Indonesia to help strengthen the Government's capacity to deal with national drug and crime challenges. In addition, the Office succeeded in raising funds from existing and newly emerging donors, including national donors, amid changing drug, crime and development dynamics in the region.

16. In Latin America and the Caribbean, UNODC has succeeded in strengthening strategic partnerships with key stakeholders and in promoting interregional cooperation, including the new initiative connecting countries in Latin America and the Caribbean and in West Africa in joint work on criminal justice and law enforcement matters. In addition, a new country programme was developed in the Plurinational State of Bolivia, and new programme offices were established in El Salvador and Barbados.

17. In Eastern and South-Eastern Europe, UNODC has expanded its regional programme aimed at assisting countries in their European Union accession process.

Global programmes

18. In 2016, and in accordance with the new programme related to the implementation of the Doha Declaration, UNODC expanded its Global Container Control Programme activities to more countries. Technical assistance on terrorism prevention has also been enhanced by reaching out to 169 countries and focusing on specialized areas, including foreign terrorist fighters, terrorists benefiting from organized crime, trafficking in cultural heritage by terrorists and children involved in terrorist groups. The Global Maritime Crime Programme continued to provide technical and legislative assistance in East Africa and West Africa and is expanding into new regions. UNODC also continued to focus on the Global Programme against Money-Laundering, Proceeds of Crime and the Financing of Terrorism.

19. Throughout 2016, UNODC continued to provide tailored technical assistance regarding efforts to combat corruption through its field-based anti-corruption advisers. UNODC supported the implementation of the UNAIDS 2016-2021 Strategy by promoting human rights, public health, justice and equality of access to

HIV services for people who use drugs and people in prisons. Activities under the Global Programme for Combating Wildlife and Forest Crime were expanded in Africa, Asia and Latin America. The Office's global programmes against trafficking in persons and the smuggling of migrants also expanded significantly after partnering with the European Union to launch a new global initiative against trafficking in persons and the smuggling of migrants. Also in 2016, two new global programmes, on global prison challenges and violence against children, were launched, and attracted broad donor and recipient support. The United Nations Interregional Crime and Justice Research Institute also contributed to the programme delivery.

D. Budget performance highlights

20. While the financial statements have been prepared on an accrual basis in accordance with the International Public Sector Accounting Standards (IPSAS), the programme budget of UNODC continues to be formulated. managed and presented on a modified cash basis using the United Nations system accounting standards (UNSAS). A summary of the comparison of budget and actual amounts is shown in statement V.

21. All figures quoted in the present section as income and expenditures refer to modified cash basis figures, comparable with budgets (UNSAS).

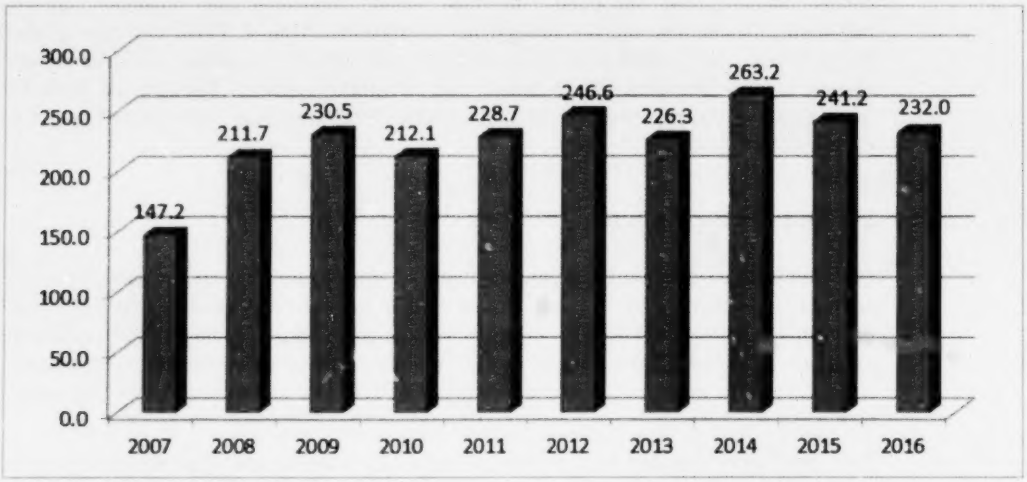
22. The consolidated budget of UNODC is formulated on a biennial basis. The budget of general purpose funds (unearmarked contributions) is approved by the Commission on Narcotic Drugs and the Commission on Crime Prevention and Criminal Justice, while the budget for special purpose funds (earmarked contributions) and the budget for programme support cost funds (administrative and programme support cost budget) is presented to the Commissions for their endorsement. Together, the unearmarked and earmarked contributions and administrative and programme support funds constitute the Office's extrabudgetary resources. The consolidated budget also includes information on the regular budget of UNODC, which is approved by the General Assembly.

23. Subsequent to the approval of the consolidated budget, the Director of the Division for Management of UNODC authorizes the allocation of funds for the implementation of programmes and projects on the basis of fund availability. At the end of the first year of the biennium, the budget is revised to adjust to evolving needs. Such adjustments are approved/endorsed by the Commissions within the context of the implementation report on the first year of the biennium. The revised budget for 2016-2017 was presented to the Commissions at the end of 2016.

24. The resource requirements of UNODC are grouped under each of the nine subprogrammes, and also provide components for executive direction and management and programme support.

25. Figure IV.I shows the 10-year trend in annual UNSAS technical assistance expenditure. Figures IV.II and IV.III illustrate the distribution of the 2016 UNSAS expenditures by subprogramme and by region, respectively.

Figure IV.I
United Nations system accounting standards technical assistance expenditure trends (excluding regular budget), 2007-2016
(Millions of United States dollars)



26. Notwithstanding year-on-year fluctuations, UNODC has seen an upward trend in the delivery of technical assistance (extrabudgetary implementation) over the decade. The 2016 expenditure of $232.0 million is 57.6 per cent higher than the 2007 level of $147.2 million. Compared with $241.2 million in 2015, expenditure in 2016 represents a slight decrease of $9.2 million (3.8 per cent).

Figure IV.II
United Nations system accounting standards technical assistance expenditure by subprogramme (including regular budget), 2016
(Millions of United States dollars)

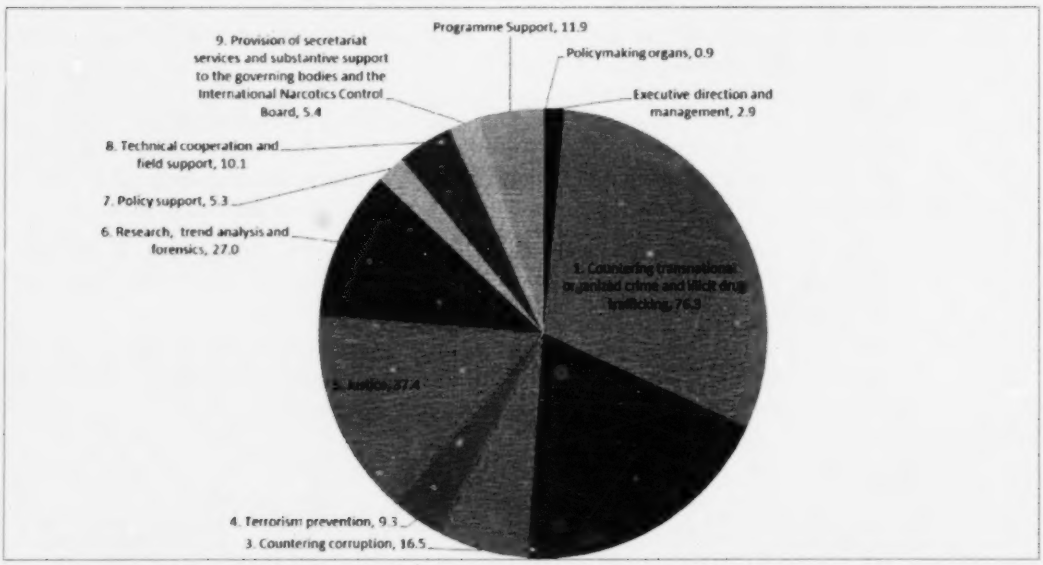
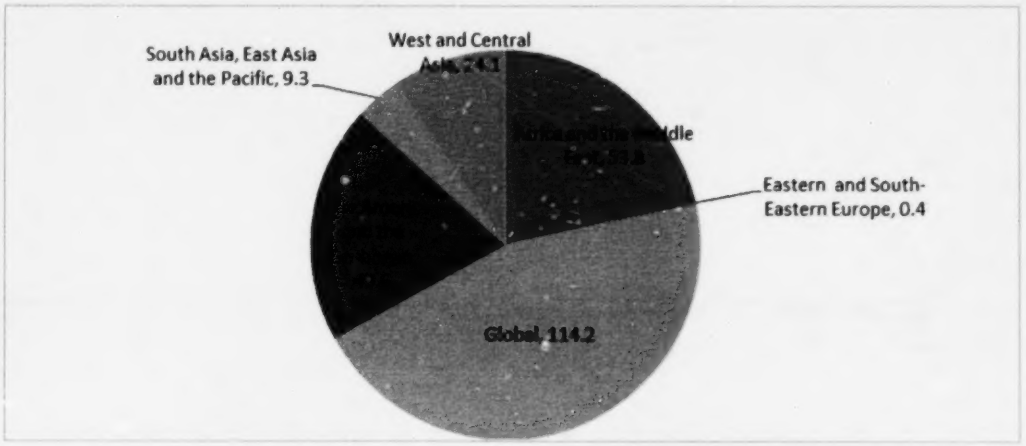

Programme Support, 11.9
Policymaking organs, 0.9
Executive direction and management, 2.9
9. Provision of secretariat services and substantive support to the governing bodies and the International Narcotics Control Board, 5.4
8. Technical cooperation and field support, 10.1
7. Policy support, 5.3
6. Research, trend analysis and forensics, 27.0
1. Countering transnational organized crime and illicit drug trafficking, 76.9
5. Justice, 37.4
4. Terrorism prevention, 9.3
3. Countering corruption, 16.5

Figure IV.III
United Nations system accounting standards expenditure by region (including regular budget), 2016
(Millions of United States dollars)



27. Table IV.1 shows 2015 and 2016 expenditures, broken down by funding source in terms of special purpose funds (earmarked contributions), the related programme support cost funds (administrative and programme support cost budget) and general purpose funds (unearmarked voluntary contributions), and the regular budget.

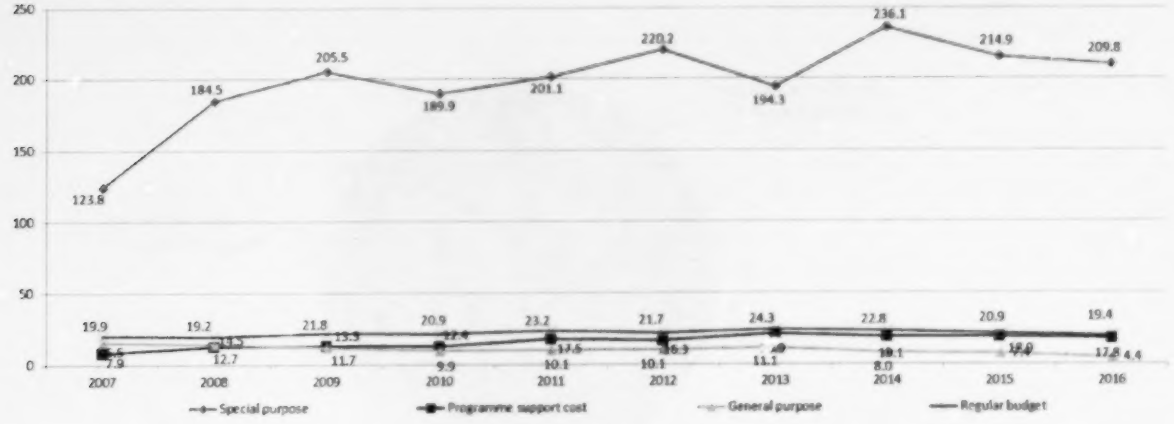
Table IV.1
United Nations system accounting standards expenditure by funding source (including regular budget), 2015-2016
(Millions of United States dollars)

	2015 (UNSAS)		*2016 (UNSAS)*	
	Amount	*Percentage*	*Amount*	*Percentage*
Extrabudgetary resources				
Special purpose funds	214.9	82	209.8	83
Programme support cost funds	18.9	7	17.8	7
General purpose funds	7.4	3	4.4	2
Subtotal	**241.2**	**92**	**232.0**	**92**
Regular budget	20.9	8	19.4	8
Total	**262.1**	**100**	**251.4**	**100**

Note: Consistent with the consolidated budget for 2016-2017, in the present financial statements, regular budget expenditures include sections 16 and 23. In the financial statements for 2015, regular budget expenditures included sections 1, 16, 23 and 29G.

28. The 10-year evolution of the expenditure for special purpose funds, programme support cost funds, general purpose funds and regular budget is presented in figure IV.IV below.

Figure IV.IV
United Nations system accounting standards evolution of expenditures (including regular budget), 2007-2016
(Millions of United States dollars)



29. Figure IV.IV highlights the continuing trend towards technical assistance delivery through special purpose funding (earmarked funds) rather than general purpose funding (unearmarked funds). In 2007, delivery through unearmarked funding was equivalent to 10.5 per cent of total extrabudgetary delivery; in 2015, it was equivalent to 3.1 per cent, while in 2016 it was further reduced to a mere 1.9 per cent. The continuous decline, in absolute and percentage terms, of general purpose income negatively affects the medium-term ability of UNODC to: (a) implement its strategy; (b) improve upon its management processes; (c) exercise effective corporate oversight; and (d) launch new initiatives and programmes. While UNODC responded to this trend by implementing stricter financial disciplines through full cost recovery (see section F below), it continues to call upon donors to make more soft-earmarked contributions.

30. The initial budget approved/endorsed by the Commissions in December 2015 for 2016 amounted to $322.1 million in extrabudgetary resources. In December 2016, the Commissions approved/endorsed a revised 2016 budget of $268.3 million, reflecting more realistic projections for the implementation of voluntary funded programmes. Compared with the UNSAS 2016 extrabudgetary expenditures of $232.0 million (2015: $241.2 million), this equates to a delivery of 72.0 per cent (2015: 82.1 per cent) on the initial budget and 86.5 per cent on the revised budget (2015: 77.4 per cent on the final budget).

31. In addition to overcoming a temporary performance dip as a result of the implementation of Umoja in November 2015 that carried into the first half of 2016, UNODC made efforts to improve on its budgeting precision, planning processes and assessment of capacity and ramp-up needs for new projects. In addition, UNODC is working to improve on the gaps between the timing of donor reporting and contributions replenishments, and better coordinate technical assistance through implementing partners and end beneficiaries. UNODC envisages improved leveraging on the planning functionalities available through Umoja.

E. Financial analysis

32. This section reflects on the results presented in the IPSAS-based financial statements and accompanying notes, unless otherwise stated.

33. As at 31 December 2016, net assets amounted to $550.4 million (statement I), representing an increase of $97.4 million (or 21.5 per cent) compared with $453.0 million as at 31 December 2015. This increase was a result of a net surplus in 2016 of $100.3 million (statement II) offset by a loss arising from the actuarial valuation of employee benefits of $3.0 million (statement III).

34. Cash and cash equivalents and investments amounted to $509.0 million (62.2 per cent of total assets as at 31 December 2016). The increase of $48.0 million over the 2015 amount of $461.0 million is primarily due to a higher collection ratio from non-exchange transactions than in 2015.

35. As at 31 December 2016, voluntary contributions receivable representing uncollected earmarked pledges totalled $264.5 million (2015: $272.7 million), net of allowance for doubtful receivables of $2.7 million (2015 $10.4 million) (see note 7).

36. Implementing programmatic activities in partnership with other United Nations programmes and agencies, international and regional organizations, government institutions and non-governmental organizations is an important element of the UNODC business model. Under the UNODC framework of engagement with external parties, the Office transfers advances to its implementing partners and subsequently measures their utilization through partner reporting in a timely manner. As of the end of December 2016, a balance of $15.5 million (2015: $8.5 million, restated) of advances remained outstanding. Of this amount, $7.2 million relates to advances made in support of the efforts to reduce illicit crops and promote alternative development and a culture of legality in Colombia (see note 8).

37. As at 31 December 2016, UNODC held property, plant and equipment in the amount of $13.9 million (2015: $10.5 million). During 2016, as part of its programmatic activities, UNODC made significant transfers of assets to end beneficiaries, including transfers of completed construction projects to local government authorities ($4.6 million). As of the end of 2016, ongoing construction projects amounted to $6.7 million (see notes 10 and 27).

38. As at 31 December 2016, UNODC reported advance receipts of $5.8 million (2015: $5.9 million, restated). This amount represents funds received from exchange transactions for services that had not been delivered by year-end.

39. UNODC liability for employee benefits amounted to $110.5 million as at 31 December 2016 (2015: $101.9 million), of which $105.1 million (2015: $96.0 million, restated) represents liability under defined benefit plans (see note 14).

40. The total revenue of $342.2 million during 2016 (2015: $275.0 million, restated) consists primarily of $300.9 million (2015: $238.7 million, restated) of non-exchange transaction (87.9 per cent of total revenue) (see note 19); and $30.1 million (2015: $29.0 million) of allocations from the United Nations regular budget (see note 18). Within "other revenue" of $7.7 million (2015: $5.1 million), exists $3.0 million (2015: $4.5 million) of income derived from exchange transactions such as services rendered on software support and training to Member States and other international organizations (see note 20).

41. The total expenditures for the period amounted to $241.9 million (2015: $278.7 million, restated) comprising mainly staff-related costs of $101.3 million (2015: $95.9 million, restated), or 41.9 per cent of total expenses, and non-employee compensation and allowances of $40.4 million (2015: $51.3 million, restated), or 16.7 per cent of total expenses. In addition, $18.6 million (2015: $30.1 million, restated) of expenditures represents the work delivered by the implementing partners as well as grants to non-governmental organizations under authorized small-grants schemes during 2016.

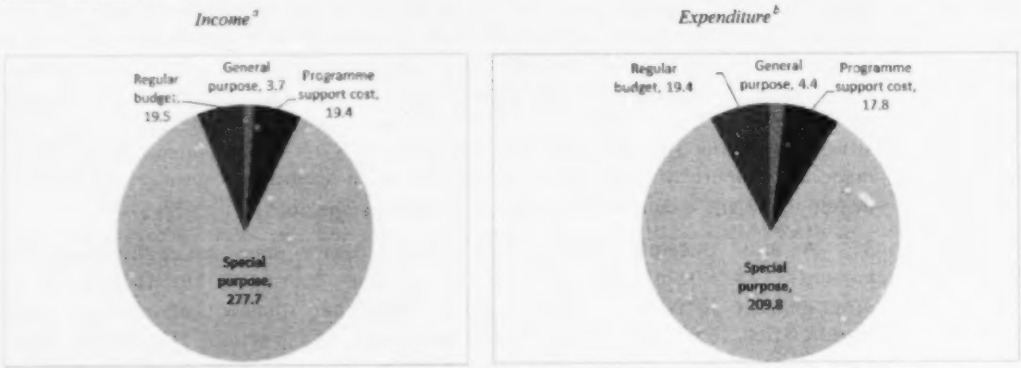
F. Challenges and improvements, 2016 and beyond

Roll-out of full cost recovery

42. Despite a growth in the Office's total voluntary contributions, including inter-organizational arrangements, of $300.9 million in 2016 (2015: $238.7 million), the level of general purpose income (unearmarked contributions) reached an all-time low of $3.7 million, or 1.2 per cent of contributions (2015: $4.2 million, or 1.8 per cent). Undoubtedly, this trend continues to put a strain on the ability of UNODC to deliver its programmes.

43. Figure IV.V presents 2016 income and expenditure by source of funding (general purpose funds, programme support cost funds and special purpose funds).

Figure IV.V
United Nations system accounting standards income and expenditure, by funding source
(Millions of United States dollars)



[a] Refer to note 19.
[b] Refer to table IV.1.

44. In 2014, with the aim of addressing the persistent deterioration of general purpose income, UNODC introduced funding arrangements rooted in full cost recovery, linking core and programme functions to a system of direct and indirect costing. In line with prevailing Secretariat-wide policies, repeated calls of the General Assembly and requirements to align the uses of funds with their intended purpose and avoid funding cross-subsidizations, UNODC set out to fairly, transparently, consistently and predictably cost its technical cooperation assistance.

45. In 2016, UNODC continued to ensure a systematic and consistent application of full cost recovery to all programmes and projects funded from voluntary contributions. UNODC adapted its recovery processes to the newly introduced enterprise resource planning system, Umoja, and issued revised cost-accounting guidelines to field offices and programme managers. In addition, UNODC has been improving on its cost-management reporting mechanisms in order to take advantage of the enhanced visibility and information timeliness expected to be gradually gained from Umoja. The overall aim is to enable management to apply closer monitoring of the full cost recovery rates, analyse cross-office comparisons and conduct informed reviews of the financial situation and potential solutions for maintaining the integrity of the field office network.

46. In 2016, through the full cost recovery initiative, UNODC continued to strengthen its sense of transparency and cost-consciousness and fulfilled its commitment to Member States to identify areas for cost-efficiencies. Gross cost-

saving measures at headquarters and in the field totalling $3.7 million, arising from short- and long-term efficiencies, have been reported to the Commission on Narcotic Drugs and the Commission on Crime Prevention and Criminal Justice.

47. It is highlighted that, while the complete roll-out of the initiative was planned in the biennium 2014-2015, the transition to full cost recovery was extended to the biennium 2016-2017 in order to allow additional time for the absorption of the financial impact among programmes. UNODC remains fully committed to this initiative, which will further assure its donor base that its activities are financially transparent and donated funds are used in accordance with donor covenants.

Enterprise risk management initiative

48. The joint enterprise risk management framework, launched in August 2014 by the United Nations Office at Vienna and UNODC, gradually became operational in 2015, and addresses many of the strategic and operational policy considerations of senior management. Completion of the framework's roll-out to the field offices and the finalization of the various products was extended to the first half of 2016 owing to the competing priorities posed by the implementation of Umoja and a prolonged budget development process during the second half of 2015. The development of the risk registers and risk-response treatment plans of divisions and field offices was completed in 2016. As of the end of 2016, UNODC had moved to the ongoing review and updating of its key risk matrices.

49. A second Secretariat-wide enterprise risk assessment process led by the Department of Management will be undertaken in 2017, and UNODC has been selected as one of the pilot entities involved in the assessment process. This review is also combined with an initial fraud risk assessment to be rolled out in 2017, stemming from the introduction of a comprehensive fraud and corruption framework by the Secretariat.

Umoja roll-out

50. The implementation of Umoja, the new enterprise resource planning system, in November 2015 posed challenges for UNODC in both Vienna and its field offices. The first quarter of 2016 was particularly difficult, as programme managers and administrative support staff rolled out activities while facing steep learning curves with regard to the system's end-to-end processes. By the second quarter of 2016, UNODC had been gradually overcoming those challenges, as evidenced by the increased throughput of transactions and the easing of requests to help desks and the rates of transactions that required reworking. At year-end, the Umoja roll-out at UNODC was well into the stabilization phase.

51. Throughout 2016, UNODC exerted immense efforts to overcome processing bottlenecks, expand the user base, set up suitable data structures, tailor training to UNODC operations, monitor user compliance with prescribed processes, enhance business intelligence reporting and provide support-desk functions to Vienna and to field offices. In addition, UNODC took the lead in the development of donor reporting functionalities on behalf of the Secretariat.

52. Deployment efforts were and continue to be directed to the next Umoja release (Umoja Extension 2), which is expected to bring major improvements to budget formulation, programme planning and management, the processing of outgoing grants, donor relationship management, demand and supply planning, event management and workforce planning. A proof of concept for budget formulation was under way by the end of 2016, with a pilot scheduled for 2018 and implementation in the biennium 2020-2021. Further Umoja enhancements were also

under way to address the implementation of the changes to staff remuneration and benefits recommended by the International Civil Service Commission.

53. UNODC is fully aware that its good functioning depends on the timely stabilization of Umoja, effective engagement of UNODC programme experts in the development of Umoja Extension 2, continued support to end users and field offices and adherence to Umoja processes, while fine-tuning the underlying workflows. UNODC is fully committed to this initiative, which is aiming for improved accountability, better management of resources and more effective and efficient operations.

Results-based management

54. UNODC has successfully institutionalized a culture of results-based planning and reporting, and a robust programme planning and reporting procedure is being adhered to under projects and programmes. Interdivisional structures for programme planning and review have been strengthened during the 2016, with the creation of a programme review committee, which comprises senior managers from all divisions and allows for a strategic overview to be taken of progress made and challenges encountered in programme implementation. This has created a continuous and virtuous learning loop that has resulted in better evaluation results. Nevertheless, in order to learn from experience, UNODC will conduct an in-depth evaluation of results-based management in the coming year and will also present a road map to further strengthen its results orientation.

55. In 2015, UNODC prepared an annual report that was followed by a funding appeal. This exercise is a testament to the Office's commitment to live up to the highest standards of programmatic transparency and to follow a coherent approach to presenting results and future funding needs. The UNODC programme progress report for 2015 was in two parts. The first part was a series of results-based programme reports for each of the approved UNODC global, regional and country programmes. In line with the structure of the 2015 annual programme reports, they measured progress against targets and also covered emerging good practices, lessons learned and partnerships forged, as well as the human rights and gender aspects of the Office's programmes. There was also an overview report on the UNODC programme portfolio in Latin America. The second part of the annual report served as an advocacy tool and focused on the human impact of the work of UNODC. It highlighted concrete achievements under the global, regional and country programmes, and focused on outcomes, rather than activity reporting. The 2016 annual report will be presented in 2017.

Chapter V

Financial statements for the year ended 31 December 2016

United Nations Office on Drugs and Crime

I. Statement of financial position as at 31 December 2016

(Thousands of United States dollars)

	Reference	*31 December 2016*	*31 December 2015 (reclassified)[a]*
Assets			
Current assets			
Cash and cash equivalents	Note 5	143 896	79 479
Investments	Note 6	246 445	229 082
Voluntary contributions receivable	Note 7	178 068	219 963
Other receivables	Note 7	1 856	740
Advance transfers	Note 8	15 547	8 455
Advances to UNDP and other assets	Note 9	12 856	8 784
Total current assets		**598 668**	**546 503**
Non-current assets			
Investments	Note 6	118 669	152 460
Voluntary contributions receivable	Note 7	86 391	52 738
Property plant and equipment	Note 10	13 928	10 519
Intangible assets	Note 11	387	508
Total non-current assets		**219 375**	**216 225**
Total assets		**818 043**	**762 728**
Current liabilities			
Accounts payable and accrued liabilities	Note 12	30 829	37 865
Advance receipts	Note 13	5 822	5 872
Employee benefits liabilities	Note 14	3 522	4 325
Provisions	Note 15	478	
Conditional liabilities	Note 16	73 664	131 447
Total current liabilities		**114 315**	**179 509**
Non-current liabilities			
Employee benefits liabilities	Note 14	107 001	97 579
Conditional liabilities	Note 16	46 375	32 635
Total non-current liabilities		**153 376**	**130 214**
Total liabilities		**267 691**	**309 723**
Total assets and liabilities		**550 352**	**453 005**
Accumulated surpluses/(deficits), unrestricted	Note 17	6 229	5 274
Accumulated surpluses/(deficits), restricted	Note 17	544 123	447 731
Total net assets		**550 352**	**453 005**

[a] The 2015 comparatives have been reclassified to align with the United Nations-wide classification. See notes 8, 9, 13 and 16 for further details.

The accompanying notes and annexes are an integral part of these financial statements.

United Nations Office on Drugs and Crime

II. Statement of financial performance for the year ended 31 December 2016

(Thousands of United States dollars)

	Reference	*31 December 2016*	*31 December 2015 (reclassified)**
Revenue			
United Nations regular budget allocation	Note 18	30 142	29 003
Voluntary contributions	Note 19	289 256	229 965
Other transfers and allocations	Note 19	11 607	8 728
Other revenue	Note 20	7 664	5 106
Investment revenue		3 535	2 182
Total revenues		**342 204**	**274 984**
Expenses			
Employee salaries, allowances and benefits	Note 23	101 307	95 911
Non-employee compensation and allowances	Note 24	40 359	51 339
Grants and other transfers	Note 25	18 637	30 141
Supplies and consumables	Note 26	3 456	2 457
Depreciation	Note 10	1 109	1 141
Amortization	Note 11	121	99
Travel		25 524	28 337
Other operating expenses	Note 27	49 440	67 591
Other expenses	Note 28	1 953	1 731
Total expenses		**241 906**	**278 747**
Surplus/(deficit) for the year		**100 298**	**(3 763)**

* The 2015 comparatives have been reclassified to align with the United Nations-wide classification. See notes 19-28 for further details.

The accompanying notes and annexes are an integral part of these financial statements.

United Nations Office on Drugs and Crime

III. Statement of changes in net assets for the year ended 31 December 2016

(Thousands of United States dollars)

	Reference	*Accumulated surpluses/(deficits), unrestricted*	*Accumulated surpluses/(deficits), restricted*	*Total*
Net assets as at 1 January 2015		**(12 707)**	**446 433**	**433 726**
Change in net assets				
Transfers to/from unrestricted/restricted reserves		(4 642)	3 530	(1 112)
Actuarial gain/(loss)		21 131	3 023	24 154
Surplus/(deficit) for the year		1 492	(5 255)	(3 763)
Total as at 31 December 2015		**5 274**	**447 731**	**453 005**
Net assets as at 1 January 2016	Statement I	**5 274**	**447 731**	**453 005**
Change in net assets				
Transfers to/from unrestricted/restricted reserves	Note 17	483	(483)	–
Actuarial gain/(loss)	Note 14	(1 470)	(1 481)	(2 951)
Surplus/(deficit) for the year	Statement II	1 942	98 356	100 298
Total as at 31 December 2016	Statement I	**6 229**	**544 123**	**550 352**

The accompanying notes and annexes are an integral part of these financial statements.

United Nations Office on Drugs and Crime

IV. Statement of cash flows for the year ended 31 December 2016

(Thousands of United States dollars)

	Reference	*31 December 2016*	*31 December 2015 (reclassified)[a]*
Cash flow from operating activities			
Surplus/(deficit) for the year		**100 298**	**(3 763)**
Non-cash movements			
Depreciation and amortization	Notes 10, 11	1 230	1 239
Actuarial gain/loss on employee benefits liabilities	Note 14	(2 951)	24 154
Transfers and donated property, plant and equipment and intangibles	Note 10	205	
Net gain/loss on disposal of property, plant and equipment	Note 10	5 139	5 335
Changes in assets			
(Increase)/decrease in voluntary contributions receivable	Note 7	8 242	24 861
(Increase)/decrease in other receivables	Note 7	(1 116)	(154)
(Increase)/decrease in advance transfers	Note 8	(7 092)	11 438
(Increase)/decrease in other assets	Note 19	(4 072)	919
Changes in liabilities			
Increase/(decrease) in accounts payable, Member State	Note 12	(2 608)	3 076
Increase/(decrease) in accounts payable, other	Note 12	(4 428)	3 840
Increase/(decrease) in advance receipts	Note 13	(50)	5 872
Increase/(decrease) in employee benefits payable	Note 14	8 619	(17 161)
Increase/(decrease) in provisions	Note 15	478	
Increase/(decrease) in other liabilities	Note 16	(44 043)	(20 132)
Investment revenue presented as investing activities		(3 535)	(2 182)
Net cash flows from/(used in) operating activities		**54 316**	**37 342**
Cash flows from investing activities			
Pro rata share of net increases in the cash pool	Note 6	16 428	(63 889)
Investment revenue presented as investing activities		3 535	2 182
Acquisitions of property plant and equipment	Note 10	(9 840)	(4 592)
Proceeds from disposal of property plant and equipment			(225)
Acquisitions of intangibles			(92)
Net cash flows from/(used in) investing activities		**10 123**	**(66 616)**
Cash flows from financing activities			
Adjustments to net assets	Statement III		(1 112)
Other inflows/(outflows) of cash		(22)	224
Net cash flows from/(used in) financing activities		**(22)**	**(888)**
Net increase/(decrease) in cash and cash equivalents		64 417	(30 162)
Cash and cash equivalents, beginning of the year	Note 5	79 479	109 641
Cash and cash equivalents, end of the year		**143 896**	**79 479**

[a] The 2015 comparatives have been reclassified to align with the United Nations-wide classification.

The accompanying notes and annexes are an integral part of these financial statements.

United Nations Office on Drugs and Crime

V. Statement of comparison of budget and actual amounts for the year ended 31 December 2016

(Thousands of United States dollars)

	Publicly available budget[a]			
	Original 2016 annual[b]	*Revised 2016 annual*[c]	*Actual 2016 expenditure (budget basis)*	*Difference*[d] *(percentage)*
Revenue				
United Nations regular budget allocation	19 101	19 491	19 491	0
Voluntary contributions and other transfers and allocations	295 000	271 401	299 101	10
Total revenue	**314 101**	**290 891**	**318 592**	**10**
Expense				
A. Policymaking organs	910	1 110	882	(21)
B. Executive direction and management	3 196	2 871	2 927	2
C. Programme of work				
1. Countering illicit drug trafficking and transnational organized crime	103 639	87 164	76 293	(12)
2. Prevention, treatment and reintegration, and alternative development	73 486	64 176	48 442	(25)
3. Countering corruption	20 846	18 154	16 503	(9)
4. Terrorism prevention	14 272	9 926	9 258	(7)
5. Justice	48 003	34 678	37 392	8
6. Research, trend analysis and forensics	33 203	30 699	27 002	(12)
7. Policy support	7 133	6 408	5 320	(17)
8. Technical cooperation and field support	13 549	11 369	10 067	(11)
9. Provision of secretariat services and substantive support to the governing bodies and the International Narcotics Control Board	7 429	6 032	5 427	(10)
D. Programme support	15 556	15 220	11 849	(22)
Total expenses	**341 222**	**287 806**	**251 362**	**(13)**
Net surplus/(deficit)	**(27 122)**	**3 085**	**67 229**	–

[a] Statement V budget is reported on an annual basis for reporting purposes. See note 4 for details of the 2016-2017 biennial budget information.

[b] Original approved budget for 2016 of $341.2 million covers extrabudgetary resources of $322.1 million approved by the Commission on Narcotic Drugs and the Commission on Crime Prevention and Criminal Justice (see E/CN.7/2015/17-E/CN.15/2015/20). It also includes the initial appropriation for 2016 for regular budget section 16 ($18.5 million) and section 23 ($0.6 million).

[c] Revised budget for 2016 of $287.8 million covers extrabudgetary resources of $268.3 million approved by the Commission on Narcotic Drugs and the Commission on Crime Prevention and Criminal Justice (see E/CN.7/2016/17-E/CN.15/2016/14). It also includes the revised appropriation for 2016 for regular budget section 16 ($18.8 million) and section 23 ($0.7 million).

[d] Actual expenditure (budget basis) less final budget, divided by final budget. Further details and material differences are available under note 4.

United Nations Office on Drugs and Crime

Notes to the Financial Statements

Note 1
Reporting entity

United Nations Office on Drugs and Crime, its objectives and activities

1. The United Nations Office on Drugs and Crime (UNODC) was established in 1997[1] through a merger between the United Nations Drug Control Programme[2] and the Centre for International Crime Prevention.[3] UNODC works with Member States to enhance their efforts to combat the intertwined problems of drug use, trafficking, transnational organized crime, corruption and terrorism by helping to create and strengthen legislative, judicial and health systems to safeguard some of the most vulnerable persons in society.

2. The policy directions of UNODC are grounded in the international drug control conventions, the United Nations Convention against Transnational Organized Crime and the Protocols thereto, the United Nations Convention against Corruption, the universal legal instruments against terrorism in all its forms and manifestations and related mandates adopted by the General Assembly, the Economic and Social Council, the Commission on Narcotic Drugs and the Commission on Crime Prevention and Criminal Justice. For the first time, the 2030 Agenda for Sustainable Development explicitly affirms that development requires peaceful and inclusive societies, justice for all and effective, accountable, and inclusive institutions at all levels. There exists a strongly related and mutually reinforcing relationship between the rule of law and development and, as such, neither can be realized in the absence of the other. The Office's work flows logically from these mandates and is reflected in its mission, which is to contribute to the achievement of security and justice for all by making the world safer from drugs, crime and terrorism.

3. In order to enhance the Office's effectiveness and accountability, as well as to strengthen results-based management in line with General Assembly resolution 64/259, the programme of work for the biennium 2016-2017 has been organized into six thematic subprogrammes (Countering illicit drug trafficking and transnational organized crime; Prevention, treatment and reintegration, and alternative development; Countering corruption; Terrorism prevention; Justice; and Research trend analysis and forensics) and three subprogrammes under which the Office provides cross-cutting services to Member States (Policy support; Technical cooperation and field support; and Provision of secretariat services and substantive support to the governing bodies and the International Narcotics Control Board). The programme of work is delivered by the three substantive divisions of UNODC, namely the Division for Operations, the Division for Policy Analysis and Public Affairs and the Division for Treaty Affairs.

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[1] See A/51/950, paras. 143-145.

[2] The United Nations International Drug Control Programme was established pursuant to General Assembly resolution 45/179 of 21 December 1990 as the body responsible for coordinated international action in the field of drug abuse control. The authority for the Fund of the Programme was conferred on the Executive Director by the General Assembly in its resolution 46/185 C of 20 December 1991.

[3] The Crime Prevention and Criminal Justice Programme was established by the General Assembly in its resolution 46/152 of 18 December 1991. Since 1997, the Programme has been implemented by the Centre for International Crime Prevention, which was established in accordance with the Secretary-General's reform programme (see A/51/950, sect. V).

4. Strong emphasis is placed on addressing issues that cut across subprogrammes, allowing for leveraging of complementarities and synergies among divisions and the Office's extensive field office network. Thematic experts of the Office will perform both normative and operational work and also facilitate the development and delivery of technical cooperation programmes at the global, regional and country levels. A fourth division, the Division for Management, is accountable for global administrative support through the provision of guidance, oversight and delivery of financial planning, human resources, procurement and conference management services.

5. The governing bodies of the Office are the General Assembly, the Economic and Social Council, the Commission on Narcotic Drugs and its subsidiary bodies and the Commission on Crime Prevention and Criminal Justice. UNODC also supports the International Narcotics Control Board, the United Nations Congress on Crime Prevention and Criminal Justice, the Conference of the Parties to the United Nations Convention against Transnational Organized Crime and the Conference of the States Parties to the United Nations Convention against Corruption.

6. Headquartered in Vienna, UNODC operates in all regions of the world through an extensive network of regional offices (8), country offices (7), programme offices (50) and liaison and partnership offices (2).

7. UNODC is primarily funded by voluntary contributions to the Fund of the United Nations Drugs Control Programme and to the United Nations Crime Prevention and Criminal Justice Fund. A small portion of UNODC funding comes from the regular budget of the United Nations approved by the General Assembly.

8. The Office's financial statements fully incorporate the financial transactions and results of the United Nations Interregional Crime and Justice Research Institute based in Turin, Italy. The Institute was established in 1967 by the Economic and Social Council following its resolution 1086 (XXXIX), which urged an expansion of United Nations activities in crime prevention and criminal justice. The Institute is governed by a board of trustees, which includes one representative from UNODC. The Institute is ruled by a statute adopted by the Council in its resolution 1989/56 and reports to the Secretary-General and the Council through the Commission on Crime Prevention and Criminal Justice. Strategic direction and programme support is provided by UNODC.

Note 2
Accounting policies

Basis of preparation

9. In accordance with the Financial Regulations and Rules of the United Nations, the financial statements and accompanying notes are prepared on an accrual basis in accordance with the International Public Sector Accounting Standards (IPSAS).

10. The financial statements have been prepared on a going-concern basis. The assertion is based on the approval by the Commissions and the General Assembly of the budget requirements for 2016-2017 and the historical trend of collection of assessed and voluntary contributions over the past years.

11. These financial statements cover the calendar year ended 31 December 2016. The reporting period coincides with the calendar year.

Authorization for issue

12. These financial statements are certified by the Chief of the Financial Resources Management Service of UNODC and approved by the Executive Director of UNODC.

Functional and presentation currency

13. The functional currency of UNODC is the United States dollar, which is also the presentation currency. The statement and notes are presented in thousands of United States dollars unless otherwise indicated. The amounts in the statements and note tables are rounded to the nearest thousand dollars and in text narrative notes. As a result of such rounding, totals may not add up.

14. Foreign currency transactions are translated into United States dollars at the United Nations operational rate of exchange as at the date of the transaction. This rate approximates the spot rates prevailing as at the dates of the transactions. Monetary assets and liabilities denominated in currencies other than the functional currency are translated at the United Nations operational rate of exchange year-end rate. Non-monetary foreign currency items are carried at historical cost or fair value at exchange rates prevailing as at the date of the transaction or when the fair value was determined. Resulting exchange gains and losses are presented in the statement of financial performance.

Materiality and use of judgment and estimates

15. The preparation of financial statements in accordance with IPSAS requires the use of estimates, judgments and assumptions. Materiality is central to the UNODC decision-making process and guides accounting treatment related to the presentation, disclosure, aggregation, offsetting and timing of application of changes in accounting policies.

16. Accounting estimates and underlying assumptions include but are not limited to actuarial measurements, asset useful lives, impairment, inflation and discount rates. These are reviewed on an ongoing basis; revisions to estimates are recognized in the year in which the changes in estimates take place.

Cash flow convention

17. The statement of cash flow is prepared using the indirect method.

Revenue

Regular budget allocation

18. In its consolidated biennial budget, UNODC includes the regular budget resources that directly finance its programmatic delivery. The relevant sections of the regular budget of the United Nations are sections 16 and 23, which are also included in statement V, on the comparison between budgeted and actual amounts. With the exception of statement V, the UNODC IPSAS financial statements take a strict UNODC entity view and only include the regular budget resources directly attributable to the programme delivery and support of UNODC. Consequently, the IPSAS financial statements account for a portion of section 29G of the regular budget of the United Nations, which covers the support to UNODC.

19. Upon approval, the total regular budget of the United Nations is assessed to the Member States in accordance with the scale of assessments determined by the General Assembly. The management and collection of the regular budget assessments is performed centrally by the Secretariat. As a result, UNODC does not

control the individual assessment receivables and, therefore, does not recognize them in its financial statements.

20. UNODC recognizes in its financial statements the yearly allocation utilized as revenue in the statement of financial performance.

Voluntary contributions

21. Voluntary contributions and other transfers with probable inflow of resources supported by firm enforceable pledges and not subject to restrictions are recognized as revenue in full, irrespective of the duration of the agreement. Contributions subject to specific restrictions are recorded as liabilities and the revenue is recognized only when the conditions are met. Contributions and other transfers not supported by enforceable agreements are recognized as revenue only upon receipt of cash.

22. Voluntary contributions receivable balances represent uncollected revenue from enforceable agreements and are stated at nominal value, less specific impairments. An allowance for doubtful receivables is applied based on historical collection experience.

In-kind contributions

23. Outright in-kind contributions and the donated rights to use of goods over $5,000 are recognized as revenue to the extent that future economic benefits or service potential to the Office is probable and reliably measurable. Contributions in kind are initially measured at their fair value as at the date of receipt, determined by reference to observable market values or by independent appraisals. In-kind contributions of services are not recognized as revenue but rather disclosed in the notes to the financial statements to the extent that they exceed $20,000.

Exchange revenue

24. Exchange transactions are those in which the Office provides goods or services, such as training, software and conference management support, to governments, United Nations entities and other partners. Revenue is recognized at fair value when the goods are delivered or the services rendered. Related amounts billed but not collected are included within other receivables, and amounts collected but not yet utilized are included within advance receipts.

Investment revenue

25. The United Nations Treasury invests funds pooled from Secretariat entities and other participating entities. The investment revenue includes the Office's share of net cash pool revenue and other interest revenue. The net cash pool revenue includes any gains and losses on the sale of investments, which are calculated as the difference between the sale proceeds and book value. Transaction costs that are directly attributable to investment activities are netted against revenue. Net revenue is distributed proportionately to all cash pool participants on the basis of their average daily balances. Cash pool revenue also includes unrealized market gains and losses on securities. These are distributed proportionately to all participants on the basis of year-end balances.

26. The Office's share of the United Nations investment in the cash pools is reported under cash and cash equivalents, short-term investments and long-term investments depending on the maturity period. The Office's share of the investment cash pool revenue, realized gains on sale of cash pool securities and realized and unrealized gains and losses are reported in the statement of financial performance.

Expenses

27. UNODC delivers technical assistance programmes through projects in Vienna and its global network of field offices. Projects are executed through direct project delivery or through implementing partners.

28. In accordance with IPSAS, expenses are reported according to the delivery principle. Expenses are recognized on an accrual basis when goods are delivered and services are rendered regardless of the terms of payment.

Leases

29. UNODC enters into lease arrangements for property, plant and equipment where all of the risks and rewards of ownership are not substantially transferred to UNODC. Such arrangements are classified as operating leases. Payments made under operating leases are expensed over the term of the lease.

30. Leases of tangible assets, where UNODC has substantially all the risks and rewards incidental to ownership of an asset, are classified as finance leases.

31. Assets leased under finance leases are capitalized and included in property, plant and equipment, and the corresponding liability to the lessor is included under other liabilities. A finance lease and the corresponding liability are recognized initially at the lower of the fair value of the asset or present value of the minimum lease payments. Finance charges payable are recognized over the term of the lease based on the interest rate implicit in the lease so as to give a constant rate of interest on the remaining balance of the liability.

Donated rights to use

32. Depending on the nature of the agreement, donated-rights-to-use arrangements can be treated as operating or finance leases. Long-term donated-rights-to-use building and land arrangements where UNODC does not have exclusive control over the building and title to the land is not granted are accounted for as operating leases. The threshold for the recognition of revenue and expense for an operating lease is $20,000. UNODC normally estimates such donated rights by reference to market values for similar properties.

Assets

Classification

33. The classification of financial assets depends primarily on the purpose for which the financial assets are acquired. All financial assets are initially measured at fair value. UNODC initially recognizes financial assets classified as loans and receivables on the date on which they originated. All other financial assets are recognized initially on the trade date, which is the date on which UNODC becomes party to the contractual provisions of the instrument.

34. Financial assets with maturities in excess of 12 months as at the reporting date are categorized as non-current assets in the financial statements. Financial assets at fair value through surplus or deficit are those that have been designated in this category at initial recognition, are held for trading or are acquired principally for the purpose of selling in the short term. These assets are measured at fair value at each reporting date, and any gains or losses arising from changes in the fair value are presented in the statement of financial performance in the year in which they arise.

35. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are initially recorded at nominal value.

36. Financial assets are assessed at each reporting date to determine whether there is objective evidence of impairment. Evidence of impairment includes default or delinquency of the counterparty or permanent reduction in the value of the asset. Impairment losses are recognized in the statement of financial performance in the year in which they arise.

37. Financial assets are derecognized when the rights to receive cash flows have expired or have been transferred along with all substantial risks and rewards. Financial assets and liabilities are offset and the net amount is reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

Investment in cash pools

38. The United Nations Treasury invests funds pooled from Secretariat entities and other participating entities. These pooled funds are combined in two internally managed cash pools. Participation in a cash pool implies sharing the risk and returns on investments with the other participants. Given that the funds are commingled and invested on a pool basis, each participant is exposed to the overall risk of the investment portfolio to the extent of the amount of cash invested.

39. The Office's investments in the cash pools are included as part of cash and cash equivalents, short-term investments and long-term investments in the statement of financial position depending on the maturity period of the investment.

Cash and cash equivalents

40. Cash and cash equivalents comprise cash at bank and on hand, and short-term, highly liquid investments with a maturity of three months or less from the date of acquisition.

Voluntary contributions receivable

41. Contributions receivable represent uncollected revenue from voluntary contributions committed to the UNODC by governments and other donors on the basis of enforceable agreements. These non-exchange receivables are stated at nominal value, less impairment for estimated irrecoverable amounts, the allowance for doubtful receivables. Voluntary contributions receivable are subject to an allowance for doubtful receivables on the same basis as other receivables.

Other receivables

42. Other receivables include primarily amounts receivable for goods or services provided to other United Nations entities, amounts receivable for leased-out assets and receivables from staff. Material balances of other receivables and voluntary contributions receivable are subject to specific review; allowance for doubtful receivables is assessed on the basis of recoverability and ageing accordingly.

Advances to the United Nations Development Programme and other assets

43. Advances to UNDP include those for administrative and treasury services, education grant advances and prepayments that are recorded as an asset until the goods are delivered or the services are rendered by the other party, at which point the expense is recognized.

Heritage assets

44. Heritage assets are not recognized in the financial statements; significant heritage assets transactions are disclosed in the notes thereto.

Property, plant and equipment

45. Property, plant and equipment items are stated at historical cost less accumulated depreciation and impairment. For donated assets, the fair value as at the date of acquisition is utilized as a proxy for historical cost.

46. Assets utilized in the delivery of UNODC programmes or projects are categorized as project assets, whereas those used for non-project-specific activities are categorized as management assets. Project assets that are not controlled by UNODC are expensed upon purchase.

47. Property, plant and equipment items are fully depreciated over their estimated useful lives using the straight-line method. Land, assets under construction and project assets in transit are not subject to depreciation. The table below shows the estimated useful lives and capitalization thresholds for the various classes of property, plant and equipment.

Asset class and subclass	*Capitalization threshold (United States dollars)*	*Estimated useful life (years)*
Buildings[a]	20 000	7-50
Communications and information technology equipment[a]	20 000	4-7
Vehicles	5 000	6-12
Furniture and fixtures	20 000	3-10
Machinery and equipment[a]	20 000	5-20
Self-constructed assets	100 000	–
Leasehold improvements	100 000	Shorter of lease term or 5 years

[a] Lower threshold of $5,000 applies to prefabricated buildings, satellite communication systems, generators and network equipment.

48. UNODC enters into construction works, such as the building of prisons and court houses, for the benefit of Member States. Upon completion, these assets are delivered to end beneficiaries. Work completion is measured on the basis of engineering reports submitted by the implementing partner/subcontractor and the Office's own site engineering team. As these assets are not used by UNODC but rather delivered to end beneficiaries, no depreciation charge is recognized in the financial statements.

49. Gains or losses resulting from the disposal or transfer of assets are reported in the statement of financial performance under other revenue or other expenses.

50. Impairment reviews for property, plant and equipment are undertaken yearly or when events or changes in circumstances indicate that carrying amounts may not be recoverable.

Intangible assets

51. Intangible assets developed for use by UNODC are carried at cost less accumulated amortization and impairment. Capitalized costs may include acquired computer software licenses, direct development costs (for example, employee costs, consultant costs and applicable overheads) and other costs incurred to acquire and

bring the specific software to use. For donated intangible assets, the fair value as at the date of acquisition is utilized as a proxy for historical cost.

52. Intangible assets with definite useful lives are fully amortized using the straight-line method over their estimated useful lives. The table below shows the estimated useful lives and thresholds of major classes of intangible assets.

Class	*Capitalization threshold (United States dollars)*	*Estimated useful life (years)*
Externally acquired software	20 000	3-10
Internally developed software	100 000	3-10
Licenses and rights	20 000	2-6 (period of license/right)
Assets under development	100 000	Not amortized

53. Impairment reviews for intangibles are undertaken yearly or when events or changes in circumstances indicate that carrying amounts may not be recoverable.

Advance transfers (to implementing partners) and grants

54. UNODC often implements programmatic activities through implementing partners, such as United Nations entities, international and regional organizations, government institutions and non-governmental organizations. Partner deliverables are agreed in joint project and programme cooperation agreements. Advance cash transfers are amounts provided up front to partners to deliver the agreed programme; these are initially recognized as assets and subsequently expensed based on submitted financial reports. In the absence of such financial reports, an informed assessment is made to accrue expenses on the basis of estimates of work completion after close consultation with the UNODC office responsible for managing the partner activities. Binding agreements to fund implementing partners not paid out by the end of the reporting period are shown as commitments under accounts payable and other accrued expenses.

55. UNODC operates outright grant schemes to end beneficiaries provided that conditions in project and donor covenants so permit. Individual grant awards are limited to $60,000. Outright grants are fully expensed upon disbursement, which normally coincides with the signing of the grant.

Liabilities

Classification

56. Financial liabilities include accounts payable, transfers payable, unspent funds held for future refunds and other liabilities such as balances payable to other United Nations entities. Financial liabilities with a duration of fewer than 12 months are recognized at their nominal value. The Office re-evaluates the classification of financial liabilities at each reporting date and derecognizes financial liabilities when its contractual obligations are discharged, waived, cancelled or expired.

Accounts payable and accrued liabilities

57. Accounts payable and accrued liabilities arise from the purchase of goods and services that have been received but not paid for as at the reporting date. Payables are recognized and subsequently measured at their nominal value since they are generally due within 12 months.

Advance receipts

58. Advance receipts consist of payments received in advance relating to exchange transactions.

Employee benefits liabilities

59. Employees comprise staff members, as described under Article 97 of the Charter of the United Nations, whose employment and contractual relationship is defined by a letter of appointment subject to regulations promulgated by the General Assembly pursuant to Article 101, paragraph 1, of the Charter.

60. Employee benefits consist of short-term, long-term, post-employment and termination benefits.

61. UNODC recognizes liabilities and accruals for:

(a) Short-term employee benefits, measured at nominal value;

(b) Post-employment benefits and termination benefits, calculated by independent actuaries using the projected unit credit method. Unfunded actuarial gains and losses arising from changes in actuarial assumptions are recognized in the statement of changes in net assets;

(c) Other long-term employee benefits, measured at nominal value;

(d) The United Nations Joint Staff Pension Fund. In line with the requirements of IPSAS 25, Employee benefits, UNODC has treated this plan as if it were a defined contribution plan. Accordingly, the Office's contributions to the plan during the financial period are recognized as expenses in the statement of financial performance. Liabilities to the fund are recognized only to the extent the contributions payable as at the statement date have not been settled.

Short-term employee benefits

62. Short-term employee benefits (other than termination benefits) are those payable within 12 months after the end of the year in which the employee renders the related services. Short-term employee benefits comprise first-time employee benefits (assignment grants), regular daily/weekly/monthly benefits (wages, salaries and allowances), compensated absences (paid sick leave, maternity/paternity leave) and other short-term benefits (death grant, education grant, reimbursement of taxes and home leave travel). All such benefits that are accrued but not yet paid as at the reporting date are recognized as current liabilities within the statement of financial position.

Other long-term employee benefits

63. Other long-term employee benefits are those not falling due within 12 months and comprise home leave and annual leave.

Post-employment benefits

64. Post-employment benefits comprise payments for end-of-service benefits including the United Nations Joint Staff Pension Fund, after-service health insurance, repatriation benefits and other end-of-service allowances.

Termination benefits

65. Termination benefits are recognized as an expense only when UNODC is demonstrably committed, without realistic possibility of withdrawal, to a formal

detailed plan to either terminate the employment of a staff member before the normal retirement date or provide termination benefits as a result of an offer made in order to encourage voluntary redundancy. Termination benefits to be settled within 12 months are reported at the amount expected to be paid. Where termination benefits fall due more than 12 months after the reporting date, they are discounted if the impact of discounting is material.

Defined benefit plans

66. The following benefits are accounted for as defined benefit plans: after-service health insurance, repatriation benefits (post-employment benefits) and accumulated annual leave that is commuted to cash upon separation from the Office (other long-term benefits). Defined benefit plans are those where the Office's obligation is to provide agreed benefits, and therefore UNODC bears the actuarial risks. The liability for defined benefit plans is measured at the present value of the defined benefit obligation. Changes in the liability for defined benefit plans, excluding actuarial gains and losses, are recognized in the statement of financial performance in the year in which they occur. UNODC has chosen to recognize changes in the liability for defined benefit plans from actuarial gains and losses directly through the statement of changes in net assets. As at the end of the reporting year, UNODC held no plan assets as defined by IPSAS 25, Employee benefits.

Pension plan: United Nations Joint Staff Pension Fund

67. UNODC participates in the United Nations Joint Staff Pension Fund, which is a funded, multi-employer defined benefit plan, established by the General Assembly to provide retirement, death and disability benefits. The plan exposes UNODC to actuarial risks associated with the current and former employees of other participating organizations. The entities participating in the Pension Fund jointly determined that there is no consistent and reliable basis for allocating the assets and liabilities and performance (costs) among them. Therefore, as permitted by IPSAS 25, and consistent with Secretariat-wide policy, UNODC treats the Pension Fund as a defined contribution plan with the obligations for contributions to the Pension Fund presented as employee benefit expenses in the statement of financial performance.

Non-employee compensation

68. Non-employee compensation and allowances consist of expenses incurred with respect to consultant and contractors, ad hoc experts and United Nations Volunteers. Contracts are held directly with third parties or through other United Nations agency service providers. Non-employees do not earn key allowances and benefits provided to United Nations employees, such as assignment and education grants, pension, health insurance, leave and severance pay.

Provisions and contingent liabilities

69. Provisions are liabilities recognized for a future expenditure of uncertain amount or timing. A provision is recognized if, as a result of a past event, the Office has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. The amount of the provision is the best estimate of the expenditures expected to be required to settle the present obligation at the reporting date. Where the effect of the time value of money is material, the provision is the present value of the amount required to settle the obligation.

70. Any possible obligations that arise from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain

future events not wholly within the control of the Office are disclosed as contingent liabilities. Contingent liabilities are also disclosed where present obligations that arise from past events cannot be recognized because it is not probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligations, or the amount of the obligations cannot be reliably measured.

71. Provisions and contingent liabilities are assessed continually to determine whether an outflow of resources embodying economic benefits or service potential has become more or less probable. If it becomes more probable that such an outflow will be required, a provision is recognized in the financial statements of the year in which the change of probability occurs. Similarly, where it becomes less probable that such an outflow will be required, a contingent liability is disclosed in the notes to the financial statements.

Commitments

72. Commitments are future expenses to be incurred by UNODC with respect to open contracts for which the Office has minimal, if any, discretion to avoid in the ordinary course of operations. Commitments include capital commitments (the amount of contracts for capital expenses that are not paid or accrued by the reporting date), contracts for the supply of goods and services that are not delivered as at the end of the reporting period, non-cancellable minimum lease payments and other non-cancellable commitments.

New accounting standards

73. On 30 January 2015, the IPSAS Board published six new standards: IPSAS 33, First-time adoption of accrual basis IPSASs; IPSAS 34, Separate financial statements; IPSAS 35, Consolidated financial statements; IPSAS 36, Investments in associates and joint ventures; IPSAS 37, Joint arrangements; and IPSAS 38, Disclosure of interests in other entities. Initial application of these standards is required for periods beginning on or after 1 January 2017.

74. In July 2016, the IPSAS Board issued IPSAS 39, Employee benefits, which replaces IPSAS 25 on the same topic, to align it with the underlying International Accounting Standard 19, Employee benefits. On 31 January 2017, the IPSAS Board published IPSAS 40, Public sector combinations, which prescribes the accounting treatment for public sector combinations and sets out the classification and measurement of public sector combinations (i.e., transactions or other events that bring two or more separate operations into a single public sector entity).

75. Of these, IPSAS 33, 34, 35 and 37 are not expected to affect UNODC financial statements; whereas the impact of IPSAS 36 and IPSAS 38 on the preparation of financial statements for periods beginning on 1 January 2017, as well as of IPSAS 40 for periods beginning on 1 January 2018, will be assessed on a timely basis.

Note 3
Segment reporting

76. A segment is a distinguishable activity or group of activities for which financial information is reported separately in order to evaluate an entity's past performance in achieving its objective and to make decision about the future allocation of resources.

77. In segment reporting, the Office's revenue, expenses, assets and liabilities are presented with reference to two major pillars of its mandate: the United Nations International Drugs Control Programme (drug programme) and the United Nations

Crime Prevention and Criminal Justice Programme (crime programme), which includes the United Nations Interregional Crime and Justice Research Institute. Activities that are not earmarked for specific programmes are reported based on the performance ratio of drug and crime programmes for the purpose of segment reporting.

Statement of financial position

(Thousands of United States dollars)

	31 December 2016			*31 December 2015 (reclassified)[a]*		
	Drug programme	*Crime programme*	*Total*	*Drug programme*	*Crime programme*	*Total*
Assets						
Current assets						
Cash and cash equivalents	77 369	66 527	143 896	49 850	29 629	79 479
Investments	124 110	122 335	246 445	117 206	111 876	229 082
Voluntary contributions receivable	76 315	101 753	178 068	51 162	168 801	219 963
Advance transfers and other receivables	8 752	8 651	17 403	7 055	2 140	9 195
Advances to UNDP and other assets	9 537	3 319	12 856	3 135	5 649	8 784
Total current assets	**296 083**	**302 585**	**598 668**	**228 408**	**318 095**	**546 503**
Assets						
Non-current assets						
Investments (non-current)	59 762	58 907	118 669	78 004	74 456	152 460
Voluntary contributions receivable (non-current)	17 101	69 290	86 391	16 245	36 493	52 738
Property, plant, equipment and intangibles	5 180	9 135	14 315	5 989	5 038	11 027
Total non-current assets	**82 043**	**137 332**	**219 375**	**100 238**	**115 987**	**216 225**
Total assets	**378 126**	**439 917**	**818 043**	**328 646**	**434 082**	**762 728**
Liabilities						
Current liabilities						
Accounts payable and accrued liabilities	13 819	17 010	30 829	17 990	19 875	37 865
Advance receipts	1 036	4 786	5 822	1 042	4 830	5 872
Employee benefits liabilities	1 913	1 609	3 522	2 219	2 106	4 325
Conditional liabilities	18 779	55 363	74 142	34 915	96 532	131 447
Total current liabilities	**35 547**	**78 768**	**114 315**	**56 166**	**123 343**	**179 509**

	31 December 2016			*31 December 2015 (reclassified)[a]*		
	Drug programme	*Crime programme*	*Total*	*Drug programme*	*Crime programme*	*Total*
Non-current liabilities						
Employee benefits liabilities	64 842	42 159	107 001	54 268	43 311	97 579
Conditional liabilities	14 382	31 993	46 375	10 291	22 344	32 635
Total non-current liabilities	**79 224**	**74 152**	**153 376**	**64 559**	**65 655**	**130 214**
Total liabilities	**114 771**	**152 920**	**267 691**	**120 725**	**188 998**	**309 723**
Total assets and liabilities	**263 355**	**286 997**	**550 352**	**207 921**	**245 084**	**453 005**
Net assets						
Accumulated surpluses/(deficits), unrestricted	14 887	(8 658)	6 229	16 039	(10 765)	5 274
Accumulated surpluses/(deficits), restricted	248 468	295 655	544 123	191 882	255 849	447 731
Total net assets	**263 355**	**286 997**	**550 352**	**207 921**	**245 084**	**453 005**

[a] The 2015 comparatives have been reclassified to align with the United Nations-wide classification. See notes 8, 9, 13 and 16 for further details.

Statement of financial performance

(Thousands of United States dollars)

	2016			2015 (reclassified)[a]		
	Drug programme	*Crime programme*	*Total*	*Drug programme*	*Crime programme*	*Total*
Segment revenue						
United Nations regular budget allocation	16 516	13 626	30 142	15 414	13 589	29 003
Voluntary contributions	146 676	142 580	289 256	97 288	132 677	229 965
Other transfers and allocations	4 793	6 814	11 607	4 547	4 181	8 728
Other revenue	2 340	5 324	7 664	975	4 131	5 106
Investment revenue	1 663	1 872	3 535	1 276	906	2 182
Total revenue	**171 988**	**170 216**	**342 204**	**119 500**	**155 484**	**274 984**
Expenses						
Employee salaries, allowances and benefits	46 567	54 740	101 307	48 500	47 411	95 911
Non-employee compensation and allowances	20 172	20 187	40 359	28 290	23 049	51 339
Grants and other transfers	13 363	5 274	18 637	16 398	13 743	30 141
Depreciation, amortization and impairment	725	505	1 230	760	480	1 240
Travel	10 242	15 282	25 524	11 652	16 685	28 337
Other operating expenses	22 148	27 292	49 440	39 845	27 746	67 591
Other miscellaneous expenses	2 953	2 456	5 409	2 625	1 563	4 188
Total expenses	**116 170**	**125 736**	**241 906**	**148 070**	**130 677**	**278 747**
Surplus/(deficit) for the year	**55 818**	**44 480**	**100 298**	**(28 570)**	**24 807**	**(3 763)**

[a] The 2015 comparatives have been reclassified to align with the United Nations-wide classification.

Note 4
Comparison to budget

78. UNODC budgets are prepared on a modified cash basis, the results of which are presented in statement V. Explanations for material differences between the revised budget amounts and actual expenditure amounts on a modified cash basis are considered in the table below.

79. The original budget for the biennium 2016-2017 of $644.4 million covers extrabudgetary resources of $606.2 million approved by the Commission on Narcotics Drugs and the Commission on Crime Prevention and Criminal Justice (see E/CN.7/2015/17-E/CN.15/2015/20), and regular budget resources of $38.2 million approved by the General Assembly (resolutions 70/249 A-C) for sections 16 and 23. Of the $644.4 million, the original budget for 2016 of $341.2 million is included in this statement.

80. The revised budget for the biennium 2016-2017 of $606.6 million covers extrabudgetary resources of $567.9 million approved by the Commission on Narcotics Drugs and the Commission on Crime Prevention and Criminal Justice (see E/CN.7/2016/17-E/CN.15/2016/14), and regular budget resources of $38.7 million approved by the General Assembly (resolutions 71/273 A-C) for sections 16 and 23. Of the $606.6 million, the revised budget for 2016 of $287.8 million is included in this statement.

81. The table below provides explanations on material differences.

Budget caption	*Material differences*
Policymaking organs	The variance of $0.2 million relates mainly to the follow-up process to the special session of the General Assembly on the world drug problem in 2016, which will be fully implemented in 2017.
Subprogramme 1, Countering illicit drug trafficking and transnational organized crime	The variance of $10.9 million relates mainly to delayed implementation of the project on the response to drugs and related organized crime in Nigeria; the Global Programme for Combating Wildlife and Forest Crime; the Global Container Control Programme; the project promoting better management of migration in Nigeria by combating and reducing irregular migration; the Global Programme against Money-Laundering, Proceeds of Crime and the Financing of Terrorism; the project strengthening criminal investigation and criminal justice cooperation along the cocaine route in Latin America, the Caribbean and West Africa; and the South-East Asia regional subprogramme on transnational organized crime and illicit trafficking. The reasons for the delayed implementation include a compressed budget owing to a year-by-year extension being negotiated with donors for Nigeria; the postponement to 2017 of activities in the area of fisheries crime owing to the additional time required for completion; the temporary freeze of activities in certain countries in the Middle East and North Africa; time needed to recruit and replace personnel and commence implementation of the cocaine route and border control projects in Central and South-East Asia; savings owing to services in-kind provided by the host governments; and the general challenges of reprogramming of carry-forward balances.

Budget caption	*Material differences*
Subprogramme 2, Prevention, treatment and reintegration, and alternative development	The deviation of $15.7 million relates mainly to the lower-than-budgeted implementation of the projects on the reduction of illicit crops and alternative development in Colombia; alternative livelihoods in Afghanistan; and support to the drug demand reduction in the Andean Community. The reasons for lower implementation include a reduction in the number of coca growers enrolled in the public programmes, in anticipation of the peace agreement and new policies against illicit crops in Colombia (the enrolment is expected to grow with the roll-out of a new project in 2017); changes in donor practices that affected the execution of the second phase of the project on alternative development in Colombia; delays in executing contracts with implementing partners in Afghanistan; the rephasing of activities to 2017 due to an unexpected national humanitarian emergency in Ecuador; and adjustments due to changes to the leadership of key counterpart teams in certain countries.
Subprogramme 5, Justice	The variance of $2.7 million relates mainly to higher-than-budgeted implementation under the Global Maritime Crime Programme, reflecting the late reporting of expenditures by the implementing partner.
Subprogramme 6, Research, trend analysis and forensics	The deviation of $3.7 million relates mainly to the lower-than-budgeted implementation of the United Nations Interregional Crime and Justice Research Institute; the subprogramme on the trends and impacts of the regional programme on Afghanistan and neighbouring countries; and the integrated monitoring system of illicit crops in Colombia. Reasons for the lower implementation include delays in the on-boarding of personnel and in securing national approval for the youth drug survey under the subprogramme on the trends and impacts of the regional programme on Afghanistan and neighbouring countries; and a decrease in donor contributions to the crop monitoring project in Colombia.
Subprogramme 7, Policy support	The deviation of $1.1 million relates mainly to lower-than-budgeted expenditures related to the New York Liaison Office, lower-than-budgeted recruitment costs and the review and rescheduling to 2017 of activities in the area of results-based management.
Subprogramme 8, Technical cooperation and field support	The deviation of $1.3 million relates mainly to adjustments to reserves for special purpose costs that may need to be covered from programme support costs.
Programme support	The deviation of $3.4 million relates mainly to the lower-than-budgeted implementation of information technology support to intelligence and law enforcement systems, as well as savings due to temporary vacancies and the rephasing of project improvement activities.

82. The table below shows the reconciliation between the actual amounts on a comparable basis under statement V and the Office's cash flows under statement IV.

Reconciliation of actual amounts on a comparable basis to the statement of cash flows, 2016

(Thousands of United States dollars)

	Operating	*Investing*	*Financing*	*Total as at 31 December 2016*
Actual amounts on a comparable basis (statement V)	**(251 362)**	**–**	**–**	**(251 362)**
Basis differences	313 007	–	–	313 007
Entity differences	(8 444)	–	–	(8 444)
Presentation differences	1 115	10 123	(22)	11 216
Actual amounts in the statement of cash flows (statement IV)	**54 316**	**10 123**	**(22)**	**64 417**

Reconciliation of actual amounts on a comparable basis to the statement of cash flows, 2015

(Thousands of United States dollars)

	Operating	*Investing*	*Financing*	*Total as at 31 December 2015*
Actual amounts on a comparable basis (statement V)	**(280 297)**	**–**	**–**	**(280 297)**
Basis differences	304 407	–	–	304 407
Entity differences	8 323	–	–	8 323
Presentation differences	4 909	(66 616)	(888)	(62 595)
Actual amounts in the statement of cash flows (statement IV)	**37 342**	**(66 616)**	**(888)**	**(30 162)**

83. The 2015 reconciliation of actual amounts on a comparable basis to the statement of cash flow has been restated to be in line with the restatement of cash flow statement.

84. Basis differences capture the differences resulting from preparing the budget on a modified cash basis. In order to reconcile the budgetary results to the statement of cash flows, non-cash elements such as unliquidated budgetary commitments of $18.138 million and payment against prior year budgetary commitments ($18.223 million) are included as basis differences. In addition, other IPSAS-specific differences such as the treatment of employee benefits ($1.349 million) and indirect cash flows relating to changes in receivables and accrued liabilities are included.

85. Entity differences arise when the budget includes programmes that are not part of the UNODC financial statements reporting and vice versa, such as the United Nations regular budget, which is reported under the United Nations financial statements (volume I). UNODC financial statements encompass a portion of the United Nations regular budget allocated to the administrative budget of the United Nations Office at Vienna in support of the Office's programme delivery (see note 18).

86. Presentation differences are the differences in the format and classification schemes between the statement of cash flows and the statement of comparison of budget and actual amounts. The latter does not include the changes in cash pool balances ($19.964 million). Other presentation differences include the fact that the amount included in the statement of comparison of budget and actual amounts are not segregated into operating, investing and financing activities such as cash flows on property, plant and equipment, including intangibles ($9.840 million).

87. Timing differences occur if the budget period differs from that of the financial statements. As the budget results under statement V reflect only the 2016 proportion of the biennium, there are no timing differences.

Note 5
Cash and cash equivalents

(Thousands of United States dollars)

	31 December 2016	*31 December 2015*
Cash at bank and on hand	121	239
Cash pool and term deposits	143 775	79 240
Total cash and cash equivalents	**143 896**	**79 479**

88. Cash at bank and on hand represents imprest and petty cash accounts.

89. Cash pool and term deposits represents overnight deposits held within the main and euro investment pools.

90. The increase in cash pool and term deposits is the result of the highly liquid investments in 2015 having been classified as investments.

Note 6
Investments

(Thousands of United States dollars)

	31 December 2016	*31 December 2015*
Current		
Main pool	246 445	227 219
Euro pool	–	1 863
Subtotal, current	**246 445**	**229 082**
Non-current		
Main pool	118 669	152 460
Subtotal, non-current	**118 669**	**152 460**
Total	**365 114**	**381 542**

91. Investments comprise amounts held in the United Nations cash pools and comprise short-term investments and long-term investments. Further investment details and an analysis of related exposure are provided in notes 21 and 22.

Note 7
Outstanding voluntary contributions receivable and other receivables

Outstanding voluntary contributions receivable

(Thousands of United States dollars)

	31 December 2016	*31 December 2015 (reclassified)*
Current voluntary contributions receivable		
Governments	53 529	108 981
Other government organizations	116 440	113 530
United Nations organizations	5 599	6 232
Private donors	5 234	1 590
Total current voluntary contributions receivable before allowance	**180 802**	**230 333**
Non-current voluntary contributions receivable		
Governments	26 303	20 401
Other government organizations	59 645	32 007
Private donors	443	330
Total non-current voluntary contributions receivable before allowance	**86 391**	**52 738**
Allowance for doubtful receivables, current	(2 734)	(10 370)
Total allowance for doubtful receivables	**(2 734)**	**(10 370)**
Net voluntary contributions receivable, current	178 068	219 963
Net voluntary contributions receivable, non-current	86 391	52 738
Total voluntary contributions receivable	**264 459**	**272 701**

Other receivables

(Thousands of United States dollars)

	31 December 2016	*31 December 2015*
Current other receivables		
Governments	69	150
Receivables from other United Nations entities	139	5
Other exchange revenue receivables	1 648	585
Total other receivables, current	**1 856**	**740**
Total other receivables	**1 856**	**740**

Movements in allowances for doubtful receivables

(Thousands of United States dollars)

	31 December 2016	*31 December 2015*
Opening allowance for doubtful receivables	10 370	16 416
Amounts written off[a]	(9 490)	(17 095)
Doubtful receivables adjustment for current year	1 854	11 049
Closing allowance for doubtful receivables	**2 734**	**10 370**

[a] Note 27 provides further detail.

Ageing of voluntary contributions receivable and other receivables

(Thousands of United States dollars)

	2016		*2015*	
	Gross receivable	*Allowance*	*Gross receivable*	*Allowance*
Neither past due nor impaired	196 732		160 497	
Less than one year	68 534	(509)	87 565	
One to two years	2 490	(932)	19 660	(1 781)
Two to three years	390	(390)	5 203	(692)
More than three years	903	(903)	10 886	(7 897)
Total	**269 049**	**(2 734)**	**283 811**	**(10 370)**

92. The balance of outstanding voluntary contributions receivable comprises pledges earmarked for specific activities.

93. All pledges that are outstanding are reviewed and an allowance is created for those that may be deemed irrecoverable.

94. Other receivables primarily include amounts due from employees or from the United Nations and other entities for goods supplied, services rendered and operating lease arrangements.

95. The 2015 allowance included an amount of $7.059 million from Libya.

Note 8
Advance transfers

96. Advances to UNDP in the amount of $6.568 million from 2015 have been reclassified to other assets (see note 9).

97. Advance transfers represent the funds issued to implementing partners responsible for delivering programmes on behalf of UNODC. Advances are issued based on established agreements and expensed when either the service delivery is confirmed through the submission of certified financial reports by the partners or, in the absence of reports, UNODC estimates an accrual for programme delivery after consultation with the responsible UNODC unit.

98. The balance of advance transfers as at 31 December 2016 mainly comprised $3.938 million with the United Nations Office for Project Services, $0.966 million with the United Nations Children's Fund and $0.515 million with UNDP, and $7.192 million with various implementing partners to support the implementation and monitoring of an integrated and sustainable strategy to reduce illicit crops and promote alternative development and a culture of legality in Colombia.

Note 9
Advances to the United Nations Development Programme and other assets

(Thousands of United States dollars)

	31 December 2016	*31 December 2015 (reclassified)*
Advances to UNDP and other United Nations entities	9 711	6 568
Advances to vendors	334	228
Advances to staff	1 242	1 701
Advances to other personnel	1 301	186
Deferred charges	114	5
Other assets	154	96
Total other assets, current	**12 856**	**8 784**
Total other assets	**12 856**	**8 784**

99. Advances to UNDP in the amount of $6.568 million from 2015 have been reclassified from advance transfers.

100. Other assets include education grant advances and prepayments that are expensed when goods are delivered or services rendered by the other party.

Note 10
Property, plant and equipment

101. The movements and balances for property, plant and equipment of UNODC as at 31 December 2016 are provided below.

Movements and balances for property, plant and equipment, 2016

(Thousands of United States dollars)

	Buildings	*Furniture and fixtures*	*Communications and information technology equipment*	*Vehicles*	*Machinery and equipment*	*Assets under construction*	*Total*
Cost as at 1 January 2016	**360**	57	**1 146**	**8 782**	**1 957**	**5 435**	**17 737**
Additions	14	25	2 274	695	611	6 018	9 637
Disposals[a]	(4 642)	–	(6)	(439)	(144)	–	(5 231)
Completed assets under construction	4 772	–	–	–	–	(4 772)	–
Cost as at 31 December 2016	**504**	**82**	**3 414**	**9 038**	**2 424**	**6 681**	**22 143**
Accumulated depreciation as at 1 January 2016	**251**	**16**	**691**	**5 798**	**464**	–	**7 220**
Depreciation	53	17	289	581	169	–	1 109
Disposal	–	–	(1)	(88)	(3)	–	(92)
Transfers	–	–	(88)	61	5	–	(22)
Accumulated depreciation as at 31 December 2016	**304**	**33**	**891**	**6 352**	**635**	–	**8 215**
Net carrying amount							
1 January 2016	109	42	456	2 985	1 492	5 435	10 519
31 December 2016	**200**	**49**	**2 523**	**2 686**	**1 789**	**6 681**	**13 928**

[a] Disposals include the assets transferred to end beneficiaries as part of UNODC programme delivery (see note 27).

Movements and balances for property, plant and equipment, 2015

(Thousands of United States dollars)

	Buildings	*Furniture and fixtures*	*Communications and information technology equipment*	*Vehicles*	*Machinery and equipment*	*Assets under construction*	*Total*
Cost as at 1 January 2015	**486**	**77**	**1 668**	**8 314**	**2 160**	**6 005**	**18 710**
Additions	–	–	121	1 309	573	2 590	4 593
Disposals[a]	(3 450)	(29)	(425)	(1 106)	(788)	–	(5 789)
Completed assets under construction	3 080	–	–			(3 080)	–
Other changes	244	–	(218)	265	52	(80)	223
Cost as at 31 December 2015	**360**	**57**	**1 146**	**8 782**	**1 957**	**5 435**	**17 737**
Accumulated depreciation as at 1 January 2015	**206**	**1**	744	**5 010**	**347**	–	**6 308**
Depreciation	51	15	255	697	122	–	1 140
Disposals	(6)	–	(29)	(117)	(15)	–	(167)
Other changes	–	(1)	(280)	207	11	–	(63)
Accumulated depreciation as at 31 December 2015	**251**	**15**	**690**	**5 797**	**465**	–	**7 218**
Net carrying amount							
1 January 2015	280	76	924	3304	1 813	6005	12 402
31 December 2015	**109**	**42**	**456**	**2 985**	**1 492**	**5 435**	**10 519**

102. As at the end of 31 December 2016, UNODC holds a total of $13.928 million in property, plant and equipment. The increase of $3.409 million of property, plant and equipment holdings from the prior period is mainly attributable to the acquisition of project assets as well as the ongoing effort with regard to construction programmes for beneficiaries.

103. As part of its programme delivery, UNODC enters into construction works such as the building of prisons, police stations and court houses for the benefit of Member States. Once completed, these assets are handed over to the local governments, and the ownership of the property is then fully transferred. During 2016, construction projects in the amount of $4.627 million were transferred to the beneficiaries. The ongoing construction projects amounting to $6.681 million as of the end of 2016 are anticipated to be completed in 2017 and beyond and then handed over to the beneficiaries.

104. Additions of $9.637 million consist of cash acquisitions of $9.840 million. A depreciation of $0.205 million from 2015 posted in 2016 as a restatement was deemed immaterial.

105. The accumulated depreciation transfer of $0.022 million relates to the accumulated depreciation of $0.205 million on the 2015 adjustment above.

Note 11
Intangibles

(Thousands of United States dollars)

	Software internally developed	Total
Cost as at 31 December 2015	607	607
Cost as at 31 December 2016	**607**	**607**
Accumulated amortization as at 31 December 2015	99	99
Amortization	121	121
Accumulated amortization as at 31 December 2016	**221**	**221**
Net carrying amount		
31 December 2015	508	508
31 December 2016	**387**	**387**

106. As part of UNODC programme delivery, UNODC has developed several software products, namely goAML, goCase and goPRS. These software products are used by Member States and other international organizations under service level agreements.

Note 12
Accounts payable and accrued liabilities

(Thousands of United States dollars)

	31 December 2016	*31 December 2015*
Vendor payables	4 714	7 253
Transfers payable	3 653	10 508
Payables to other United Nations entities	107	2 969
Accruals for goods and services	17 503	14 764
Other	4 852	2 371
Total accounts payable and accrued liabilities	**30 829**	**37 865**

107. Transfers payable represents the unspent balance owed to donors for non-exchange transactions.

Note 13
Advance receipts

108. Advance receipts consist of deferred income relating to unspent cash amounts received for exchange transactions.

109. In 2015, $169.690 million was reported as advance receipts, of which $164.082 million related to cash collected on conditional arrangement for non-exchange transactions, and was reported with other liabilities in 2016. In 2015, $0.264 million under other liabilities was reclassified to advance receipts.

Note 14
Employee benefits liabilities

Summary of employee benefits liabilities as at 31 December 2016

(Thousands of United States dollars)

	Current	*Non-current*	*Total as at 31 December 2016*
After-service health insurance	703	82 195	82 898
Annual leave	445	6 961	7 406
Repatriation benefits	936	13 852	14 788
Subtotal, defined benefits liabilities	**2 084**	**103 008**	**105 092**
Accrued salaries and allowances	1 438	3 993	5 431
Total employee benefits liabilities	**3 522**	**107 001**	**110 523**

Summary of employee benefits liabilities as at 31 December 2015

(Thousands of United States dollars)

	Current	*Non-current*	*Total as at 31 December 2015*
After-service health insurance	621	74 210	74 831
Annual leave	598	6 281	6 879
Repatriation benefits	1 324	12 991	14 315
Subtotal, defined benefits liabilities	**2 543**	**93 482**	**96 025**
Accrued salaries and allowances	1 782	4 097	5 879
Total employee benefits liabilities	**4 325**	**97 579**	**101 904**

110. The liabilities arising from end-of-service/post-employment benefits are determined by independent actuaries and are established in accordance with the Staff Regulations and Rules of the United Nations. An actuarial valuation is usually undertaken every two years, with the roll-forward occurring in the second year. The most recent full actuarial valuation was conducted as at 31 December 2015 and was updated for 2016.

111. Post-employment benefits for end-of-service allowances for staff in the General Service category are calculated internally at UNODC and reported within accrued salaries and allowances. An amount of $4.188 million was reported for 2016 (2015: $4.098 million).

Actuarial valuation: assumptions

112. The Organization reviews and selects assumptions and methods used by the actuaries in the year-end valuation to determine the expense and contribution requirements for employee benefits. The principal actuarial assumptions used to determine the employee benefits obligations as at 31 December 2016 and 31 December 2015 are set out below.

Actuarial assumptions

(Percentage)

Assumptions	*After-service health insurance*	*Repatriation benefits*	*Annual leave*
Discount rates, 31 December 2015	2.26	3.75	3.77
Discount rates, 31 December 2016	2.14	3.62	3.64
Inflation, 31 December 2015	4.0-6.4	2.25	–
Inflation, 31 December 2016	4.0-6.0	2.25	–

113. Discount rates are based on a weighted blend of three discount rate assumptions based on the currency denomination of the different cash flows: United States dollars (Citigroup Pension Discount Curve), euros (euro area corporate yield curve) and Swiss francs (Federation bonds yield curve, plus the spread observed between government rates and high-grade corporate bonds rates). Slightly lower discount rates were assumed for the 31 December 2016 valuation owing to a slight variation in the inflation rates from 31 December 2015.

114. UNODC began the funding of after-service health insurance liabilities on its voluntary funded activity by imposing a levy of 9 per cent of the net base salary

with effect from December 2012. The current levy is 11 per cent of the net base salary.

115. The 2016 actuarial valuation reports a net $2.951 million actuarial loss, comprising a $2.650 million loss on after-service health insurance, a $0.203 million loss on repatriation grants and a $0.098 million loss on annual leave. The losses are the result of a decrease in the discount rate used as indicated in the actuarial assumption table above.

Movements in employee benefits liabilities accounted for as defined benefit plans

Reconciliation of opening to closing total defined benefits liability

(Thousands of United States dollars)

	2016	*2015 (reclassified)*
Net defined benefit liability as at 1 January	**96 025**	**114 069**
Current service cost	6 302	5 515
Interest cost	2 443	2 070
Benefits paid	(2 629)	(1 475)
Total net costs recognized in the statement of financial performance	**6 116**	**6 110**
Actuarial (gain)/loss recognized in the statement of changes in net assets	2 951	(24 154)
Net defined benefit liability as at 31 December	**105 092**	**96 025**

116. Accrued annual leave has been reclassified as a defined benefit liability for 2015.

Discount rate sensitivity analysis

117. The changes in discount rates are driven by the discount curve, which is calculated on the basis of corporate bonds. The bonds markets varied over the reporting period, and volatility has an impact on the discount rate assumption. Should the assumption vary by 1 per cent, its impact on the obligations would be as shown below.

Discount rate sensitivity analysis: year-end employee benefits liabilities

(Thousands of United States dollars)

31 December 2016	*After-service health insurance*	*Repatriation grant*	*Annual leave*
Increase of discount rate by 1 per cent	(17 867)	(1 441)	(682)
As a percentage of end-of-year liability	(22)	(10)	(9)
Decrease of discount rate by 1 per cent	24 827	1 631	799
As a percentage of end-of-year liability	30	11	11

Medical costs sensitivity analysis

118. The principal assumption in the valuation of after-service health insurance is the rate at which medical costs are expected to increase in the future. The sensitivity analysis looks at the change in liability resulting from changes in the medical cost rates while holding other assumptions, such as the discount rate, constant. Should

the medical cost trend assumption vary by 1 per cent, this would have an impact on the measurement of the defined benefits obligations, as shown below.

(Thousands of United States dollars)

2016	*Effects on the defined benefits obligations*	*Effects on current service cost and interest cost*
Increase of discount rate by 1 per cent	24 297	2 534
As a percentage of end-of-year liability	29.3	40.1
Decrease of discount rate by 1 per cent	(18 003)	(1 773)
As a percentage of end-of-year liability	(21.7)	(28.0)

United Nations Joint Staff Pension Fund

119. The Regulations of the United Nations Joint Staff Pension Fund require that actuarial valuations be made at least once every three years by the Consulting Actuary. In practice, the Pension Board has been carrying out an actuarial valuation every two years. The primary purpose of the actuarial valuation is to determine whether the current and estimated future assets of the Pension Fund will be sufficient to meet its liabilities.

120. The Office's financial obligation to the Pension Fund consists of its mandated contribution, at the rate established by the General Assembly (currently at 7.9 per cent for participants and 15.8 per cent for member organizations) together with any share of any actuarial deficiency payments under article 26 of the Regulations of the Pension Fund. Such deficiency payments are only payable if and when the Assembly has invoked the provision of article 26. Each member organization shall contribute to this deficiency an amount proportionate to the total contributions that each paid during the three years preceding the valuation date.

121. The United Nations Board of Auditors carries out an annual audit of the Pension Fund and reports to the Pension Board on the audit every year. The Pension Fund publishes quarterly reports on its investments, which can be viewed by visiting the Pension Fund's website (www.unjspf.org).

122. The actuarial valuation performed as at 31 December 2013 revealed an actuarial deficit of 0.72 per cent (a deficit of 1.87 per cent in the 2011 valuation) of pensionable remuneration, implying that the theoretical contribution rate required to achieve balance as at 31 December 2013 was 24.42 per cent of pensionable remuneration, compared with the actual contribution rate of 23.70 per cent. The next actuarial valuation will be conducted in 2017 for the reporting date 31 December 2017.

123. As at 31 December 2013, the funded ratio of actuarial assets to actuarial liabilities, assuming no future pension adjustments, was 127.5 per cent (compared with 130.0 per cent in the 2011 valuation). The funded ratio was 91.20 per cent (compared with 86.20 per cent in the 2011 valuation), when the current system of pension adjustments was taken into account.

124. After assessing the actuarial sufficiency of the Pension Fund, the Consulting Actuary concluded that there was no requirement, as at 31 December 2011, for deficiency payments under article 26 of the Regulations of the Pension Fund, as the actuarial value of assets exceeded the actuarial value of all accrued liabilities under the Pension Fund. In addition, the market value of assets also exceeded the actuarial value of all accrued liabilities as at the valuation date. At the time of the present report, the General Assembly had not invoked the provision of article 26.

125. During 2016, the Office's contributions to the Pension Fund amounted to $13.079 million (2015: $11.306 million).

Note 15
Provisions

126. Provisions are recorded for pending claims when it is determined that an unfavourable outcome is probable and the amount of the loss can be reasonably estimated. As at 31 December 2016, the Office had established provisions for $0.478 million for ongoing legal claims where it was assessed that the probability of a pay-out was greater than 50 per cent. In 2015, there were no provisions made as no assessed liabilities met the criteria.

Note 16
Conditional liabilities

127. The liabilities for conditional arrangements of $164.082 million for 2015 has been reclassified from advance receipts, and the $0.264 million in other liabilities in 2015 has been reclassified to advance receipts.

128. Liabilities for conditional arrangements consist of cash collected for non-exchange transactions in the amount of $32.4 million and uncollected amounts for non-exchange transactions of $87.6 million. A contra-receivable of $87.639 million is reported within voluntary contributions receivable (see note 7).

Note 17
Net assets

(Thousands of United States dollars)

	Accumulated surpluses (deficits), unrestricted	*Accumulated surpluses (deficits), restricted*	*Total*
Net assets as at 1 January 2016	**5 274**	**447 731**	**453 005**
Change in net assets			
Transfers to/from unrestricted/restricted/ reserves	483	(483)	–
Actuarial gain/(loss)	(1 470)	(1 481)	(2 951)
Surplus/(deficit) for the year	1 942	98 356	100 298
Total as at 31 December 2016	**6 229**	**544 123**	**550 352**

129. The restricted balances consist of donor contributions earmarked to specific activities.

130. The net unrestricted balance consists of unearmarked project fund balances of $39.633 million (2015: $36.446 million) and a negative balance of $33.404 million (2015: negative $31.170 million) representing the unfunded end-of-service liability originating from the regular budget.

Note 18
United Nations regular budget allocation

(Thousands of United States dollars)

	31 December 2016	*31 December 2015*
Revenue		
United Nations regular budget allocation	30 142	29 003
Expenditure		
Direct programme activities	21 068	21 470
Support (administrative) activities	9 074	7 533
Total expenditure	**30 142**	**29 003**
Excess of income over expenditure	–	–

131. UNODC efforts financed by the United Nations regular budget encompass direct programme activities, namely executive direction and management, research, normative work, secretariat support to the intergovernmental bodies and the Commissions and substantive support to the International Narcotics Control Board.

132. Support activities represent administrative services, including finance, human resources and procurement, provided by the United Nations Office at Vienna to UNODC under section 29 of the regular budget. Activities under this category represent 34.8 per cent of the total administrative budget of the United Nations Office at Vienna. The remainder of administrative operations of the United Nations Office at Vienna (65.2 per cent) supports other Secretariat entities residing in Vienna. For 2016, the expenses consist of $20.317 million (2015: $20.206 million) under section 16; $0.419 million (2015: $0.684 million) under section 23; $6.477 million (2015: $5.130 million) under section 29G; $0.332 million (2015: $0.125 million) under section 35; and $2.597 million (2015: $2.858 million) under section 36.

Note 19
Revenue from non-exchange transactions

(Thousands of United States dollars)

	31 December 2016	*31 December 2015*
Voluntary contributions		
In cash	292 056	240 330
In kind	1 761	1 087
Total voluntary contributions received	**293 817**	**241 417**
Refunds	(4 561)	(11 452)
Net voluntary contributions received	**289 256**	**229 965**
Other transfers and allocations		
Inter-organizational arrangements	11 607	8 728
Total other transfers and allocations	**11 607**	**8 728**

133. Voluntary in-kind contributions reflect primarily the donated rights to use of premises for UNODC field offices, which are typically provided by governments.

134. Other transfers and allocations consists of inter-organizational arrangements, which are amounts received from other United Nations entities.

Services in kind

135. In-kind contributions of services received during the year are not recognized as revenue and are therefore not included in the above in-kind contribution revenue. In-kind services received in 2016, in the nature of satellite image and transport expenses provided to the Office, amounted to $0.545 million (2015: $0.594 million).

Note 20
Other revenue

(Thousands of United States dollars)

	31 December 2016	*31 December 2015 (reclassified)*
Revenue from services rendered	3 034	4 458
Rental income	206	10
Revenue producing activities and other miscellaneous revenue	4 424	638
Total other revenue	**7 664**	**5 106**

136. Other revenue represents exchange revenue.

137. Exchange gains of $0.172 million in 2015 have been reclassified under operating expenses.

138. The exchange revenue from 2015 has been reclassified under other revenue, and new headings within the notes have been established for 2016.

139. Revenue from services rendered mainly consists of the provision of software support and maintenance, the training of individuals and other support services to the Office's governing bodies.

140. Revenue-producing activities and other miscellaneous revenue include $4.215 million in exchange gains and $0.111 in income from prior-year savings.

Note 21
Financial instruments and financial risk management

(Thousands of United States dollars)

Financial instruments	*31 December 2016*	*31 December 2015*
Financial assets		
Fair value through the surplus or deficit		
Short-term investments, main pool	246 445	227 218
Short-term investments, euro pool		1 863
Total short-term investments	**246 445**	**229 081**
Long-term investments, main pool	118 669	152 460
Total long-term investments	**118 669**	**152 460**
Total fair value through the surplus or deficit investments	**365 114**	**381 541**